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MARKETING THROUGH FOOD BROKERS

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MARKETING THROUGH FOOD BROKERS

BY

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TO

James Thomas Young, Ph. D.
Professor of Public Administration,
Wharton School,
University of Pennsylvania

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PREFACE

Throughout the United States there are hundreds of independent salesmen, termed "food brokers," who have been for many years a most important factor in the distribution of grocery specialties, sugar, rice, beans, and some drug products to the wholesale grocery and chain-store trade. These food brokers have offices in every principal marketing center in the country. They are not "middlemen" taking an unwarranted toll for their services. They function as efficient salesmen and are in reality extraordinary substitutes for salaried salesmen, but, instead of drawing a salary, they receive only a nominal commission or brokerage on the actual sales they are able to make for a principal or seller in the territory. Because of this, the food broker has been a most important factor in reducing the costs of making sales, and consequently he has had and will have a real economic justification for his existence in the channels of grocery products distribution.

Furthermore, the food broker has been instrumental in preserving what can be described as democracy in the grocery field. He has made it possible for the producer with limited capital to have marketing privileges and opportunities practically equal to those of the largest producers. The food broker has given the American public many new and valuable food products through his selling services, and there are thousands of producers in this country who owe their entire success to the hard and conscientious work of the food brokers who first introduced these products to the trade. It is safe to say that there would be few "giants" now in the food field if it had not been for the initial impetus given such branded products by the food broker. The history of the marketing of food products in America can be written around the activities of the food brokers.

In spite of the tremendous importance of the food broker in the food field, his work is little known and seldom understood by the great majority of Americans who are indebted to him for bringing thousands of foodstuffs into their homes at most reasonable prices. Without the services of the food broker the food bill of the American public would be much higher than it is, and it is time that proper recognition be given him for his great contribution to the distribution of food products over our broad land.

Marketing courses are given in many of our leading colleges and universities; yet in these courses the food broker is scarcely mentioned. A young man graduating from a business school receives his diploma without knowing that virtually 60 per cent of the products of America's greatest industry is sold by food brokers. He is unaware of the fact that the food brokers of America are responsible for annual sales of grocery products in excess of six billion dollars. Perhaps one reason for this oversight is the fact that the broker makes very little noise about his activities. He is an independent salesman working by independent methods, and his important work is so smoothly conducted that he generally remains unnoticed. He is likely to receive publicity only when his rights are so totally ignored, particularly by uninformed legislators, that he is obliged to voice his position and to make clear his function in the economic structure. The proof of the food broker's importance is found in the silent, efficient manner in which he moves the bulk of America's food and grocery products through the channels of distribution.

This book has been prepared to bring to light the food broker's great importance in the distribution of grocery products. Many producers could and would use the selling services of food brokers to great advantage if they knew the value of these services. It is hoped that the description of the food broker and his selling services given in this volume will not only interest many producers in the value and economy of this method of marketing, but will also dispel the ignorance and prejudice that seem to exist, outside the grocery industry, about the manner in which the food broker operates.

The author has had many years of experience with food brokers. He has visited them in all parts of the United States. He has witnessed over and over again the important work these men are performing in the distribution of grocery products. He has marveled at their general efficiency and at the service they render producers at so small a cost. He has made friends among these men and has listened to their histories, their trials and tribulations, their disappointments and their successes. It was an enriching experience in human relationships to make these numerous contacts, which enabled the author to amass a wealth of practical knowledge, often at variance with the theories of distribution entertained and taught in academic circles.

The author is happy to express his appreciation at this time to the many brokers who have given him their confidences and who have made it possible to gather the material required to give a full exposition of the broker's work, and to thank these brokers for their kind co-operation in the preparation of this volume.

A. Urban Shirk.

Little Neck Hills, N. Y.,
November, 1939.

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MARKETING THROUGH FOOD BROKERS

CHAPTER 1

MARKETING METHODS

The Importance of Selling Costs.—The most important problem confronting a producer of merchandise is the successful marketing of the products he manufactures. Assuming that the product is meritorious, is of a quality acceptable to the consumer, is competitively priced, attractively labeled and packaged, the producer must find a method for marketing it so that he can sell at a profit. It is obvious that the selling cost must be within the range of the gross profit, so that after the sale is made a net profit on the transaction will be the result.

The subject of selling costs is accordingly of the greatest importance, and in formulating a sales program the producer will be obliged to give much consideration to the various methods used for making sales in his particular industry, and perhaps in other fields, in order to decide upon the course he can use most advantageously for the marketing operations.

It is obvious that the stream of merchandising emanates from the producer or manufacturer, who prepares or processes the product for the market and places it in packages or containers that are acceptable to its buyers. He usually sets the prices at which his product is to be sold and which should result in a profit to him after the cost of making the sale is absorbed. He may go so far as to establish the prices at which his product is to be sold in every step he uses for marketing it, even to the price the ultimate consumer will pay. If the product is trade-marked or branded, the producer will invariably own the trade name and will benefit by the good will which may in time accompany such ownership.

Trade Channels in the Food Industry.—Since this book has been prepared especially for the manufacturers or processors of grocery food products or items that are sold through the grocery trades, it will be necessary to review briefly the procedures and the various trade channels most generally used for the marketing and distribution of such products.

In the food field there are many ways in which a food or grocery item may be marketed by the producer. The term "marketing" is used to embrace the entire procedure through which a product will pass from the time it leaves the producer until it reaches the hands of the ultimate consumer.

The Most Simple Selling Method.—The most simple of all the methods of marketing is the direct sale from producer to consumer. The producer may open a retail store at or near the place of production and sell his products directly to his customers. This method, however, places extreme limitations upon the potential market because the sales will be confined to one relatively small area and will be limited to just those who come to the store or who are brought to the store by some local advertising or publicity. Furthermore, simple as this procedure is, it is not free from some selling costs, because the space occupied by the retail store constitutes a selling cost and clerk hire will be required. If advertising is needed to attract customers, this will be an added expense. These selling costs must be added to the production costs and allowances made for net profit in order to fix the price to the consumer. The most common example of this type of marketing procedure is the small one-store bakery where the products are made and sold on the same premises.

Selling by Mail.—The producer may also sell direct to the ultimate consumer by an advertising campaign designed to solicit orders by mail and so increase the potential market in direct proportion to the area covered in the advertising spread. This method is used by a few producers in the United States for marketing what are known as high-priced food specialties such as maple sirup or fancy canned sea-food delicacies. The product is usually advertised in magazines or newspapers; such advertisements generally include a coupon which the buyer can clip from the paper and send to the producer accompanied with a cash remittance for the purchase. The producer in receipt of the coupon order then delivers the purchase by mail or express to the customer, and the exchange is completed.

The success of this type of marketing depends largely on the extent of the advertising and on the drawing power of the copy used. This method of selling can be used only when there is a large gross profit spread between the production cost and the selling price. The cost of making such sales may prove to be relatively high when the total cost of the advertising is divided by the number of sales brought about as a result of such publicity and when the high cost of making deliveries of small units by mail or express is considered.

Only a very small percentage of the grocery items marketed in the United States are sold by the producers direct to the consumer. The buyer, as a rule, prefers to see the food product before he makes a purchase; furthermore our national tempo chafes at delayed deliveries of purchases which are, of course, inevitable when mail is used in the entire transaction.

Grocery Products Are Sold Principally through the Retail Grocery Store.—The great majority of food and grocery product sales are made through the medium of the retail grocery store, found at every crossroads, in every village, town, and city, scattered everywhere for the convenience of the buyers of foodstuffs.

There are approximately 440,000 retail grocery stores in the United States, of which 360,000 are owned and operated by independent merchants and 80,000 are chain-store units of all classes. This means one such store for every 285 inhabitants in the entire country. Stocked in these hundreds of thousands of retail grocery stores are food and grocery items of all descriptions on which the American housewife spends more than half a billion dollars each month for her food requirements.

Since, because of their accessibility and number, the great bulk of grocery items are sold in these retail stores, the producer who wants a broad and practically unlimited market should select the most effectual and convenient channels for placing his product on the display shelves of these stores where it can be seen and readily purchased by the ultimate customer. This objective must be reached at the lowest selling cost.

How the Retail Stores Procure Supplies.—Where do these many retail merchants obtain the thousand and one items they stock in their stores? As a rule few laymen can answer this question, because the average consumer is not familiar with the channels of distribution by which grocery items pass from the producer to the retailer; it will be necessary to chart these channels so that a producer just entering the grocery field will have a clear notion of the various routes generally used to reach these retail outlets.

It must be mentioned, however, that these channels of distribution, like those of a great river, are subject to constant change. Nothing is static in an industry of such importance as that of food, and although there are many variations in the channels and possible short cuts, it is safe to state that at present the great bulk of grocery items reach the retail stores in three ways:

$$1.\ \text{Producer}\rightarrow\text{Food broker}\rightarrow\left\{\begin{array}{l}\text{Jobber}\rightarrow\text{Independent retailer}\\ \text{Chain}\rightarrow\text{Chain-store unit}\end{array}\right\}\rightarrow\text{Consumer}$$

$$2.\ \text{Producer}\rightarrow\left(\begin{array}{c}\text{Salaried}\\ \text{salesman}\end{array}\right)\rightarrow\left\{\begin{array}{c}\text{Jobber}\rightarrow\text{Independent retailer}\\ \text{Chain}\rightarrow\text{Chain-store unit}\end{array}\right\}\rightarrow\text{Consumer}$$

$$3.\ \text{Producer}\rightarrow\left(\begin{array}{c}\text{Producer's}\\ \text{private}\\ \text{warehouse}\end{array}\right)\rightarrow\left(\begin{array}{c}\text{Salaried}\\ \text{salesman}\end{array}\right)\rightarrow\left\{\begin{array}{c}\text{Independent}\\ \text{retailer}\\ \text{Chain-store}\\ \text{unit}\end{array}\right\}\rightarrow\text{Consumer}$$

These three main channels can be seen readily in Exhibit 1, which shows each step in the flow of distribution from the producer to the retailer and finally to the ultimate consumer. This chart shows the two principal types of retail grocery stores: the independent store generally managed by the owner and the chain grocery store, which is usually a unit of a corporate chain-store organization and is operated by a salaried employee. The independent retailer usually procures his stock from the wholesale grocer or jobber. The retail chain-store units receive their requirements from warehouses maintained by each individual chain organization.

The Wholesale Grocer's Place in the Distribution Channel.—The terms "wholesale grocer" and "jobber" are synonymous in the grocery trades and a brief description of his functions in the stream of distribution is necessary in order to understand the economic justification for his existence.

Jobbers, or wholesalers, have for years occupied an important place in the distribution of many kinds of merchandise in this country. They are found in many fields. There are jobbers or wholesalers of candy, of notions, of drugs, of hardware, of plumbing supplies, of tobacco and cigarettes; in the grocery field there are at present approximately 5,000 wholesale grocery firms located in 2,200 distributing centers scattered throughout the entire United States which cater to the requirements of a large proportion of the 360,000 independent retail grocery stores in this country.

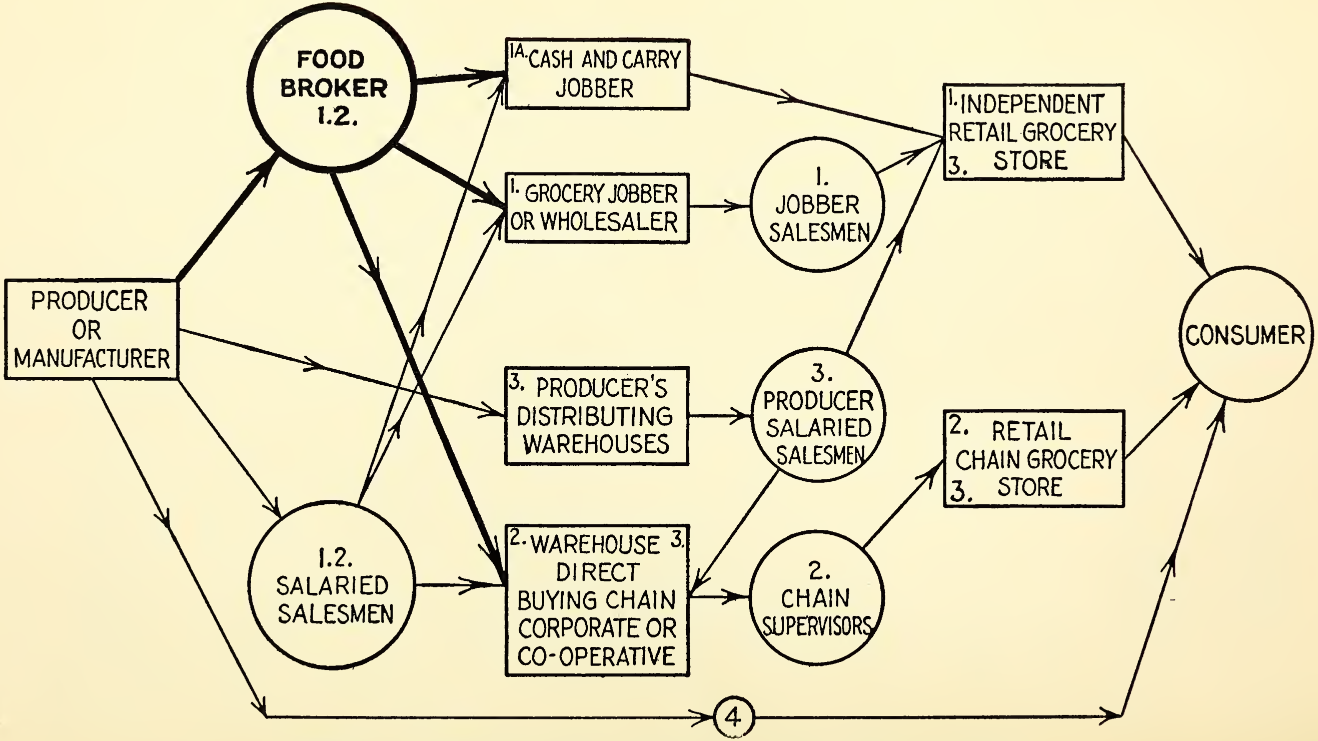
FOOD BROKER 1.2.
1A. CASH AND CARRY JOBBER
1. INDEPENDENT RETAIL GROCERY 3. STORE
1. GROCERY JOBBER OR WHOLESALER
1. JOBBER SALESMEN
PRODUCER OR MANUFACTURER
CONSUMER
3. PRODUCER'S DISTRIBUTING WAREHOUSES
3. PRODUCER SALARIED SALESMEN
2. RETAIL CHAIN GROCERY 3. STORE
1.2. SALARIED SALESMEN
2. WAREHOUSE 3. DIRECT BUYING CHAIN CORPORATE OR CO-OPERATIVE
2. CHAIN SUPERVISORS
4

Exhibit 1.—Three main channels of distribution from producer to consumer.

The producer makes large unit sales of his product to these grocery jobbers; they in turn sell in smaller units to the retail stores. The grocery jobber can be defined as an independent merchant who purchases on his own account large quantities of various grocery items direct from the producers. He stores these purchases in a warehouse which he either owns or leases, and this entails a large investment in inventory. The jobber usually employs a crew of trained salesmen who regularly visit the independent retail grocery stores in his trading area in order to sell the many items stocked by the jobber to these retailers. The jobber's payments for such merchandise to the producer provide the latter with a quick cash return on his investment, and the jobber provides warehousing for the product, thus eliminating that cost to the producer. Furthermore the jobber then assumes the responsibility of distribution to the retail stores at his own risk, taking care of the credit risks, the collections, and the delivery charges entailed by these many small unit sales.

Why Producers Sell to Jobbers.—The producer may not desire, or may be unable because of his limited capital resources, to shoulder the expense and effort of making thousands of small unit sales directly to the several hundred thousand small independent retail merchants scattered all over the land. Such a procedure would require the employment of a vast army of salesmen and would necessitate the establishment of a large credit and collection department, to say nothing of the delivery problems. Very few of the 50,000 manufacturers, processors, canners, packers, and others who are engaged in producing foodstuffs for the consumption of the American people could afford to assume such a burden, and the great majority of these producers are obliged to depend upon the wholesale grocer to distribute their products to the independent retail grocery stores in every market. For this service the jobber is, of course, entitled to a reasonable profit return which is represented by the difference between the price he pays the producer for large unit purchases and the higher price he receives from the retailer for smaller units of the same commodity.

The Chain Grocery Store.—The chain grocery store is the second general type of retail establishment where the consumer may purchase his grocery requirements. In the United States there are at this time approximately 800 chain-store companies or corporations that operate 50,000 chain-store units, and there are, in addition, 30,000 retail stores operating as chains of the retailer-owned or co-operative classification. Like the jobber, the chain-store organization must maintain a warehouse for servicing its retail units. Deliveries of merchandise must also be made from this warehouse to the retail units. Since the chain-store organization possesses a buying capacity equivalent to the number of retail stores it operates, it can also purchase merchandise in large units directly from the producer. This merchandise is then placed in the chain's warehouse and distributed to the various retail units, where it is displayed and offered for sale to the retail customers, thus again saving the producer the work of making direct sales contacts with each of these many stores.

Other Types of Wholesale Buyers.—In addition to these two principal channels of distribution to the retail stores—the independent jobber and the chain organization—there are innovations and variations for effecting the same objective, such as the "cash-and-carry" jobber. This type of jobber, instead of using salesmen to solicit orders from the retailer, invites him to come to the jobber's warehouse, purchase his requirements on a cash basis, take the merchandise away with him, and so save the jobber the expense of employing salesmen and making deliveries.

There are also what are known as co-operative retailer groups in which the retailers jointly finance their own common warehouse from which the members of the group obtain their stock requirements. The co-operative warehouse may be able to purchase directly from the producer if the combined buying power of the members commands such a privilege.

There are also retail grocery chains under the sponsorship of wholesale grocers, the wholesalers supplying the independently owned retail store with grocery products at favorable prices and assisting the members of the group in the preparation of posters, window streamers, and the like. A standard store front of a special design will be used by all the members, and the group will function as a chain organization with the exception that the retail units are independently owned by the various merchants and the wholesaler acts as the distributing warehouse.

Lately the super-market is making a place for itself in the distribution of grocery products to the consumer. The super-market, because of its size and the vast number of retail customers to whom it can cater at one time, may command sufficient purchasing power to buy in large units directly from the producer.

These variations are all a sign of dynamic energy for capturing the trade of the ultimate consumer by offering him food products at low prices, in attractive surroundings, and with speed and service. Each variation has its own definite place. Each is a product of evolutionary processes. Each is performing the important service of placing the producer's goods on retail shelves, where they can be purchased by the consumer.

Direct Sales to Retailers.—The third method for making sales to retail stores is used by a few of the very large producers who have a variety of items to sell. If a line of products contains many items a substantial order covering the variety can be obtained, on one visit, from the average large independent retail grocery store. The producer of such a large line may find it expedient to sell direct to the retailer, thus shunting the jobber. Under this method of marketing, the producer is obliged to employ a very large sales organization, as already pointed out, when sales are made direct to the retail stores, and warehouses must be maintained by the producer in the various distributing centers in order to deliver orders promptly.

Since this method of making sales direct to the retailer is covered in full detail in practically every textbook on marketing, little attention will be given to it in this volume, for there are only a few producers of foodstuffs in America who are large enough and have sufficient capital resources to market in this manner. From the prominence given this type of merchandising in the average textbook it might be thought that this shunting of the grocery jobber always results in lower marketing costs and serves to better advantage the interests of the ultimate consumer, but the experiences of many producers do not warrant this conclusion. This method of selling direct to the retailer requires extensive warehousing, delivery service, and a large sales personnel, and in reality the producer simply takes on the functions of a jobber at every warehouse point. These direct sales made by the many salesmen to the many independent retail stores may cost the producer more than the profit expected by the jobber who will perform this same service at his own risk.

The theory used to support this type of distribution is that the producer will save the profit usually given to the independent jobber, but it is generally found to be more economical to give the jobber his reasonable profit and let him bear the risks of warehousing and marketing the products. In any event the consumer seldom benefits from any savings under this type of merchandising, because if the selling costs prove to be higher than anticipated, the producer usually passes these increased costs on to the retailer, who in turn must pass them on to the consumer.

Since, as indicated heretofore, few producers have the capital resources to engage in this third method of making sales direct to the retail grocers, this book will be confined to the problem of making sales through the wholesaler and chain-store channels used by the great majority of producers, and since these two main channels require the use of sales contacts between producer and wholesale buyer, the primary consideration is that this sales service be performed at the lowest cost to the producer.

Salesmen Are Essential.—Whether the producer offers his product to any one or to all of the wholesale distributing agencies which have been described Exhibit 1, it is absolutely necessary that he employ salesmen to bring his product to the personal attention of the buyers, whether these are jobbers, corporate chains, co-operative groups, or any other wholesale distributors of grocery products to the retail grocery stores.

In the history of the grocery trades frequent attempts have been made to perform this selling function by mail or telephone and to eliminate the use of salesmen, but there exist no monuments to their success. The element of personal salesmanship and personal contacts has no substitute. Each of these wholesale distributing agencies has a buyer who has the responsibility of purchasing the distributor's requirements from the various producers. Over and over again it has been demonstrated that it is extremely difficult to sell to these buyers unless personal solicitation is used, and this explains why in any graph showing channels of distribution in the grocery trades the function of personal selling must occupy a prominent position immediately following that of production.

Food Brokers Have Received Little Recognition in Textbooks on Marketing.—Many books have been written on merchandising and marketing, and in these can be found chapter after chapter describing the various methods used in America to effect sales with the greatest economy. One of the best and most popular of these books on selling and sales management contains almost a thousand pages with twenty-seven chapters describing in detail such important subjects as sales planning, the distribution problem, costs of selling, research and analysis, statistics, charts, sales records, recruiting the salesmen, the education of the salesmen, compensation plans, contracts, quota systems, sales contests, salesmen's reports, expense accounts, etc., etc.

In this large handbook there is only one mention of the food broker and his important place in the marketing of foods and grocery items, and that appears in two very short paragraphs explaining why the California Associated Raisin Company decided to eliminate the broker from its sales planning. The implication in this brief mention of the broker is that his selling services were apparently of an unsatisfactory nature and that better results could be obtained from salaried salesmen. It is interesting to note that after a few years of experience with salaried salesmen and divisional sales offices which were used to replace the broker, the Sun Maid Raisin Growers Association, successors to the California Associated Raisin Company, resumed the food-broker method of marketing in 1930, with a sharp reduction in selling costs and a marked increase in sales volume and territorial coverage.

Notable Accomplishments of Food Brokers.—This omission of the food broker and his sales services in the average textbook on marketing is inexplicable, particularly in view of the great importance, for many years, of the food brokers in America in the marketing of food products and grocery items. Many of the most popular brands of trade-marked food products were first introduced and sold to the trade by food brokers. Among such items may be mentioned California-grown English walnuts, evaporated milk, various brands of California canned and dried fruits, canned strained baby foods, packaged rice, vegetable cooking and salad oils, prepared pancake flours, meat sauces and condiments, corn sirups, prepared and canned dog and pet foods, many popular so-called "breakfast" cereals, and so many more that it would require pages to list them.

In addition to introducing these numerous branded products, the food brokers of America have been *solely* responsible for the marketing of many new forms of foods, such as canned grapefruit, canned fruit juices, and canned tuna fish. Most of the brands of trade-marked food products which are now advertised and sold from coast to coast and which are produced by the largest organizations in the food industry were originally introduced and placed on the market by food brokers. It can be truthfully stated that many of these great food-producing companies owe their existence to the pioneering work of the food broker.

A Selling Service Such As Is Rendered by Food Brokers Is Found Only in the Food Industry.—The food field is unique in that it contains a large number of merchandising specialists known as food brokers who are located in every marketing center of importance in America. There are so-called brokers in many fields, but it is only in the food field that the brokers have developed a nation-wide selling service adapted to the particular requirements of merchandising food products. Since most books on marketing give little or no consideration to the food brokers' services in selling food and grocery products, it is timely that a book be written to explain the nature and value of the services being rendered by the food brokers of the United States to thousands of producers. A full consideration of this method of marketing, as compared with a salaried sales force, should be given by the producer of foodstuffs and grocery items in preparing his sales plans. The food brokers have a brilliant record of performance in this field. They are highly organized and are capable of rendering every possible variety of marketing service to the producer in his necessary contacts with the wholesale purchasers of his products.

What Is a Food Broker?—Considering the fact that the food brokers in America are now responsible for perhaps as much as 60 per cent by dollar value of all food and grocery products sold at wholesale or to wholesale distributors in this country, it is astonishing how little is known by the layman about this occupation. The aggregate annual sales of these food brokers exceed $6,000,000,000, which is far in excess of the total sales made in the food industry by salaried salesmen. When the term "food broker" is used, it invariably conveys to the average person a confused concept that a food broker is some kind of useless middleman who takes an unwarranted and unearned portion of the expense of selling with the result of increasing marketing costs at the expense of the consumer.

Unfortunately the term "broker" when applied to food brokers is decidedly a misnomer, and this choice of a term has been a deterrent factor to a complete understanding of just what a food broker is and how he functions. According to the definition in Webster's Dictionary, a broker is described as "originally a retail vender of wine, hence in general a middleman or agent," or again "he may be a dealer in money, notes, bills of exchange, etc." In Funk and Wagnalls's Standard Dictionary the definition is given as "one who buys and sells for another on commission." Neither of these definitions applies to a food broker as the term is recognized in the food industry of this country.

The True Definition of a Food Broker.—Since dictionaries do not adequately or correctly define the term "food broker," it is necessary that a precise definition be given in order to clarify the terminology, for unless the exact functions of a food broker are entirely clear, his value as a selling force and merchandising factor cannot be appraised. Such a clarification is necessary if the producer is expected, in the preparation of his marketing plans, to weigh the advantages of marketing his product through the medium of food brokers as compared with a salaried sales personnel.

Before defining a food broker, it may be well to approach the subject from a negative angle in order to dispel at once any misconceptions about the term. First it must be clearly understood that a food broker does *not* buy any merchandise on his own account to sell for a profit. Neither is he in any respect a middleman. Emphasis must be placed on the fact that a food broker cannot and does not ever represent a buyer. The food broker must not be confused with a jobber. The jobber is a wholesale dealer in merchandise, whereas the food broker is a salesman who acts only as a sales representative or sales agent for the producer, who is called the "principal" by the broker. As a salesman the broker never sells competing lines of products except by the express permission of and agreement with the principals he represents. The food broker, furthermore, makes sales of his principal's products only to the *wholesale* buyers. He never sells the merchandise directly to the retailers. The broker is allocated a well defined territory by his principal, and he must restrict his selling activities to that particular area, where he acts as the *sole* selling agency for the principal. Although the broker will not sell competing products, he may represent in a selling capacity more than one producer in the same territory. The food broker never works for a salary. His remuneration takes the form of commissions which are paid to him on the sales he makes for his principal—the producer or seller—whose merchandise the broker sells. The commissions paid to the broker by the producer for sales made by or through the broker are called "brokerages."

The food brokers approve, as accurate, the description of a food broker which appears in Art. III, Sec. I, of the Constitution of the National Food Brokers Association, which reads: "A food broker is defined as an independent sales agent who performs the services of negotiating the sale of food and/or grocery products for or on account of the seller as principal, and who is not employed or established by, nor an affiliate or subsidiary of, any trade buyer, and whose compensation is a commission or brokerage paid by the seller."

Minimum Selling Costs the Primary Objective in the Sales Campaign.—In making decisions on the marketing plans, the producer should investigate all the possible methods which may be used to achieve the sales objective at the lowest selling cost, and since most of the textbooks on marketing are written for the purpose of instruction in the ways and means for developing an efficient salaried crew of salesmen, it will be well to consider some of the problems such a salaried personnel entails. Every item of the costs of selling must be taken into consideration when the sales campaign is being planned, so that the selling costs will be within reason and not absorb all of the gross-profit margin and cause deficits instead of net profits for the operations.

The Food Field Is Very Competitive.—It is recognized that the creation or building up of a successful and efficient sales force is an expensive procedure unless the product to be sold is so unique and so acceptable to the consumer that little effort is required to sell it. However, few food or grocery items have such desirable qualifications, and for most grocery products the food field will be found to be quite competitive. In the majority of cases the producer of almost any kind of food or grocery item will find sufficient competition in the field to make the marketing of his particular item a serious and important problem. It is almost impossible for a producer of foodstuffs to have any kind of strict monopolistic right on his particular product, which in other fields could be protected by definite patent rights. Foods are always amenable to substitution, and for the great majority of consumers one type of food may be just as satisfactory as another. The consumer may enjoy eating canned corned beef, but if the price of this product becomes prohibitive for his budget, he can just as well make his sandwich with canned salmon if the latter may be purchased at a price cheaper than the corned beef. There are so many varieties of foods on the market and the public taste for food is of such a general and universal nature that substitutes are always being made, and the total consumption rolls on as a tide carrying everything edible with it.

Price is, of course, one of the chief elements in maintaining a product in the full flow of the tide of consumption, and because of this circumstance the producer must employ every expedient to keep the price of his product as low as possible so that it will occupy the broadest possible part of the mass market. Since selling costs are primary determinants in fixing prices, the producer who does not find the lowest selling cost for his product will be subjecting himself to a handicap that may prove fatal to the success of his operations.

Problems of a Salaried Sales Personnel.—Assuming that the producer decides to create his own salaried sales force, what are some of the elements of risk he will encounter? It will be necessary for him, first, to determine the extent of the territory in which the marketing operations are to be conducted. He must decide how many salesmen will be required to cover this territory adequately with the necessary frequency to produce the maximum sales volume. Will the proposed sales personnel possess the talent and ability to sell the product? The matter of compensating these hired salesmen will be of importance, because this will have a large bearing on the total costs of selling. There are also the matters of traveling expenses for the salesmen and supervision costs to be considered. These questions are all conditioned again upon the matter of production, because a certain quantity of any product must be made in order to bring the production costs within reasonable and warranted limits, and then the quantities produced must be sold at a reasonable selling cost in order to have a profit as the net result of these activities. With all these factors entering into the costs of making sales, it is extremely difficult to estimate in advance the costs of selling, particularly if a new product is to be marketed for which there are no established precedents. Under such uncertainties it would be next to impossible to budget in advance the estimated selling costs, and the whole problem will resolve itself into one of trial and error.

Limited Capital Restricts Growth with Salaried Salesmen.—If the producer has only a limited amount of capital at his disposal for the development of his business, it will be necessary for him to confine the sales personnel to only a few men; this will restrict the area in which the product can be marketed. Rapid growth of the business would not be possible under such restrictions except in cases where an unusually large margin of gross profit would permit increases in the sales personnel for opening up additional territory and so extending the field of operations. However, few food products, except the highly specialized ones, because of the substitution and competitive factors, offer such wide margins of profit. In addition, the producer is faced with the problems of training the salesmen, of methods of compensation, of efficient routing, of personnel turnover, and of the control of the salesmen's traveling expenses. He may be obliged to carry the burden of a heavy selling expense until the salesmen are more or less familiar with the trade and are established with the buyers. Furthermore, there is the matter of eliminating salesmen who have not come up to expectations and replacing them with others, who may or may not make good. These unavoidable problems in marketing not only are of great importance to newcomers in the food or grocery field, but are also of importance to the producers who enjoy an established business, because markets when secured must be constantly maintained and the selling costs must always be kept within definite limits.

Dangers of Overexpansion with a Salaried Sales Force.—Regardless of these hazards and of all the uncertainties surrounding the employment of a salaried sales force, it must be admitted that many large and profitable industries were built up by this type of marketing. After the business has been developed to a large volume of sales it may be possible to keep the selling costs at an absolute minimum through the use of a highly efficient sales organization, but on the other hand there is always the danger, with a salaried sales force, that the selling costs may get out of control and the business be wrecked.

Some years ago the author had the assignment of reorganizing the sales department of what was at one time an exceptionally successful company engaged in canning food specialties and staple items. The business had been firmly established for many years and had a good profit record. Gradually, with increased business, the selling personnel was also enlarged until more than one hundred fifty salaried men were being employed to take care of the national distribution of the products. Directing these men were six district sales managers who in turn were supervised by two divisional sales managers, and topping the entire structure was the general sales manager with his staff of assistants.

The carefully executed graph of this large organization displayed what seemed to be a well co-ordinated and efficient regimentation of sales energy. Here was apparently a perfect staff of salesmen operating under wise control and management; but something was wrong somewhere, because the company was steadily losing money on its operations. Interested bankers were obliged finally to order an investigation into the operations of this sales department. When a thorough analysis was completed it proved that the selling costs amounted to 28 per cent of the sales volume, or in other words, it was costing the company $28.00 to sell every $100.00 worth of the products. With a gross profit-margin spread of about 25 per cent it was obvious that there would be substantial deficits in the operations.

Here was a case where the sales structure had been built too large for the purpose. It had been developed gradually over a long period of time, keeping pace with the expanding sales until it finally became top-heavy and now the business faced disaster. There was only one way to stop the losses and this was to reduce immediately the sales personnel and the high cost of selling and adopt some other less costly method for maintaining the sales volume. Many of the salaried salesmen were accordingly released and the sales organization reduced to a skeleton of what it once had been. This step would not have solved the problem if these released salesmen, with their fixed selling costs, could not have been replaced by some other means for sustaining sales without the burden of a fixed charge, and the only possible substitute was the food broker who sells on a commission basis. Food brokers were accordingly selected to take the place of the salesmen in many of the less profitable areas. By these changes the selling costs were finally brought low enough to assure a profit to the company, and the business was saved.

Marketing through Food Brokers Is Economical.—Why were food brokers selected in this particular case to take the place of salaried salesmen? The answer is, because the food brokers were paid only a nominal commission on sales they actually made, thus greatly reducing the selling costs. The brokerage paid the food brokers was 5 per cent. When the broker sold $100.00 worth of the merchandise, the brokerage payment was $5.00. Brokers who made no sales received no compensation whatsoever. The costs of selling were accordingly reduced from the high average of 28 per cent to 5 per cent. The food broker's commissions can be predetermined as an exact percentage of the selling price, generally payable, with some few exceptions which will receive attention elsewhere, only when, if, and after a sale has been made. In the case of a salaried sales personnel the salaries and traveling expenses go on, whether or not sales are made; consequently the total of these fixed charges can bear no definite or constant relationship to the selling prices.

During the depression of 1931 and onwards, many producers who had employed salaried salesmen were obliged to curtail such sales personnel and replace these men with food brokers, because selling through brokers not only reduced the total selling costs but, what was of more importance, brought these costs within a predetermined limit.

Selling Costs Cannot Be Predetermined with Salaried Salesmen.—It is extremely difficult to fix selling costs with a salaried sales personnel so that they will bear a definite relationship to the sales volume. Salaries vary, traveling expenses are a more or less uncertain factor, and the total selling costs always vary in inverse ratio to the volume of sales. When sales fall off because of conditions over which the producer has no control, the costs of selling will be proportionately increased and can only be reduced by discharging many of the salesmen. When men are discharged, it is costly to train new ones to take their place later on when the business surges upward again.

Large and Small Producers Benefit Alike from the Services of Food Brokers.—It is not only the large producer who has found it economical and advantageous to use food brokers for selling his products, but the small producer especially can benefit by using the services of these highly trained salesmen. The food broker shows no partiality between small and large principals. Each line the broker carries receives equal treatment. The unimportant principal of today may develop into a very important one tomorrow. Many brokers can point to such developments as a part of their experience, and frequently such successes owe their growth solely to the selling efforts of the brokers.

The process of selling through the broker is so simple that a minimum of clerical work is required on the part of the producer to handle the selling details. No other method of marketing is so flexible as marketing through food brokers. With brokers the small producer can extend his marketing activities quickly and widely without the expense of training and maintaining salaried salesmen. Since the selling costs with brokers can be determined in advance and are based only on sales actually made, less capital is required for the operation of the sales department.

Food Brokers Offer a Nation-wide Selling Service.—A small producer may be able to employ and maintain only one salesman, which would greatly restrict the scope of his sales operations; by using the selling services of food brokers he has available a resident sales representative in each of the 426 principal distributing centers of the food and grocery business in the United States and Canada. With the selling costs confined to expenses for postage, telegrams, long-distance telephone calls, and with perhaps some occasional travel on the part of the head of the firm, the total cost of using this national network of food brokers would be little more than that required to maintain one traveling salaried salesman who would be doing well to work ten or perhaps twenty of these 426 markets effectively. In fact it would be economic insanity and an absolute impossibility for a small producer, particularly a small one-commodity canner, even to attempt to establish and maintain anything resembling a salaried sales organization. It is to the small producers particularly that the food brokers can offer a sales service which has no substitutes.

Brokerage Terms Are Always Fixed.—Again it should be emphasized that the remuneration to a food broker is always in terms of definite percentages of actual sales or is based on so much per unit, the unit being bags, cases, boxes, pounds, or any other denominator. These rates of brokerage are fairly constant and are common with all producers. The broker asks for nothing in addition to his nominal brokerage. He pays out of this income his own office and traveling expenses. When the broker is used in the marketing campaign, the producer has only the one selling-cost item of brokerage to consider, other than the usual supervision expenses and office maintenance charges, but such normal overhead will exist regardless of whether brokers or salaried salesmen are employed.

Food Brokers Offer the Ideal Method for Marketing.—Whether the producer be small or large, the ideal way to market a food product, or any item, is one in which the selling costs can be determined in advance and in which these costs will not vary to a great degree with variations of the sales volume. If the selling costs can be fixed at a definite percentage of sales or on a constant unit basis and if the producer can have the assurance that his salesmen are of proved ability, that they are personally acquainted with all the potential buyers, that these salesmen will not require special training, and that they are all personally familiar with the economic and geographic conditions of the territories in which they each operate, a well-nigh perfect condition exists for successful marketing at the lowest possible selling expense.

These ideal conditions for marketing a food or grocery item come closest to realization by marketing through food brokers, and it is the purpose of this book to assist producers of such items to recognize the valuable sales assistance they can procure from food brokers and how to make the best use of this flexible method of marketing so that they may benefit to the utmost by the remarkably efficient sales services offered by the food brokers of the United States.

CHAPTER 2

THE FOOD BROKER AND HOW HE FUNCTIONS

In the first chapter of this book appears a short definition of a food broker. Amplification of this definition is now necessary in order to describe in full detail the manner in which he functions in the food field. A brief historical survey of his activities will portray the genesis of a food broker and his gradual rise to a commanding position in the marketing of foodstuffs and allied grocery products in America.

Historical Survey of the Food Broker's Trade.—Very little general material is available for a chronological and exact history of the food broker's trade in the food industry. It is impossible to isolate the first broker and build a history from such an origin. The best available histories are the individual experiences of the older members of the trade who became food brokers for various types of grocery products many years ago in different parts of the country; since these experiences have so much in common and invariably follow the same pattern a typical history can be generalized.

It is generally believed that the first of the food brokers came into existence shortly after the War between the States, perhaps at some time between the late 1860's and early 1870's. The canning of fruits and vegetables in substantial volume was first developed in the area around the city of Baltimore, Md., and some of the first food brokers operated in that city. These first brokers were located, contrary to the present setup, at the sources of production rather than at the places of distribution. They appear to have been truly "brokers" in fact as well as in title, according to the orthodox meaning of the term, because they sought buyers for the products of the packers and were likewise commissioned to find producers or sellers for products sought by the remote buyers or distributors, who could not come to the market and to whom the packers, especially the small ones, could not send sales representatives. Perhaps this dual role of acting for the seller as well as for the buyer was the origin of the name "broker," which today is quite misleading, owing to later developments in the brokerage trade, when applied to a "food broker" as the term is now recognized in the grocery field.

Necessity created this trade of the food broker because the population of the country was steadily and rapidly moving westward while the processing and manufacturing of grocery items was still confined to the eastern seaboard. Pioneer distributors or grocery jobbers were beginning to locate their businesses in the clearings and settlements of the frontier. Travel and communication were difficult. The packers in the East could reach these remote frontier markets only with the greatest of hardships, and the buyers in such faraway places had little opportunity to visit the sources of their supplies.

With the gradual development of new marketing centers on the ever-expanding frontier, the packers on the seaboard required salesmen to contact these faraway wholesalers. Most of the packers were too small to afford the luxury of a salaried traveling salesman, so the broker came to the rescue of the packer who had products to sell. Food brokers, who had been operating in the large seaboard markets for the many small canners, now began to establish branch sales offices in these new remote centers of distribution. These branch offices as well as the broker's main office made sales for these canners only on a commission basis. As these new marketing centers became larger and more prosperous, other men in these localities entered into business as food brokers and, with this expansion in the industry, the broker became less and less the procuring agency for the distributors, and more and more the direct

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sales agent or representative of the seller or "principal," as he is now called.

Food Brokers Never Receive Salaries.—The first broker of grocery products was undoubtedly a man who had confidence that he possessed some sales ability and that he could make a fair livelihood by selling some food product to the wholesale buyers in the locality in which he resided. He preferred to do this selling work on a commission basis rather than for a salary. Perhaps he felt that his earnings would be greater if he sold for a commission, and he was willing to take a gamble on earnings commensurate with his sales ability as against a fixed and regular salary income.

There could have been no "first" broker if there had not been at the same time some manufacturer or processor of foodstuffs who required a salesman to sell these products at a low and predetermined selling cost. He was perhaps a manufacturer or canner of limited means who could not afford to gamble with the fixed salary and the traveling expenses of a salaried salesman. This producer was no doubt very glad to avail himself of the selling services of a food broker, who would assume the burden and risk of marketing the product in exchange for a nominal commission compensation. Each had something to offer the other, and an agreement was thus made between them—the producer to supply the product and the food broker to sell it under simple brokerage terms. If the food broker made a sale, he would receive a fixed and nominal brokerage from the producer for his efforts. If no sales were made, the broker would receive nothing.

The Food Broker's Modus Operandi.—This first broker then proceeded to offer the product to the wholesale distributors of similar items in his neighborhood, and as a result of frequent visits with these buyers, during which the product was fully described, samples shown, and prices quoted, he succeeded in making some sales for the account of the producer. More visits to these buyers and additional orders for the product followed, and in this way the broker gradually built up a substantial volume of sales in his local territory, and the gamble of his time and efforts proved to be justified by his increased earnings as a result of these many sales. As a result of this increased income the broker could enlarge the scope of his sales activities by visiting the potential buyers for the product in near-by localities. At first he used the horse and buggy, the steam trains, and later the electric trolley cars to make these calls. Finally, with the invention and development of the automobile, he was provided with a fast and reliable conveyance for widening the range of his sales efforts, and this opened up for him a larger field in which to operate and to increase his earnings.

Why the Broker Sells for More than One Producer.—With the successful establishment of one product in his market, this first food broker then pondered the possibility of selling other noncompetitive food items to the same wholesale buyers, also on a commission basis. He realized that it would be unfair to his first connection or principal to offer the buyers a similar commodity, so he found a producer of some other dissimilar food product who wished to have it marketed, on a commission basis, in this same territory to the same wholesale buyers. The broker now had two products to offer these buyers. These two items, however, may have been of a seasonal nature and occupied the time of the broker for only a few months out of the year. This gave the man extra time for selling additional products, and he perhaps added a third and a fourth line of grocery products, all, of course, noncompetitive in nature, since he found he had the time available for giving each of these lines the necessary sales attention. By representing a number of producers in a sales capacity, the costs of selling for these producers was kept at a low point, since these sales efforts were concentrated in the hands of one salesman.

When the broker had a number of varied items to offer the wholesale buyers, he was no longer obliged to serve the buyers in seeking the products they required, or, in other words, he ceased to be a buyer's agent. He, or other brokers, was able to bring to these buyers such a variety of products of every description that the buyers were no longer at a loss in their search for sources of supplies. This condition divorced the broker from the buyer, and the broker took on the sole function of serving only his principals—the producers. This metamorphosis from serving both seller and buyer to acting solely as selling agent for the producer was so gradual that it was no doubt the reason why the term "broker" continued to be used long after these salesmen ceased to function as "brokers" in the orthodox meaning of the term and came to act solely in a sales capacity for the producer. In fact after the broker adopted the pure function of selling he became increasingly more important to the producer because as a master salesman the broker was able to break down the buyer's natural buying resistance to new products.

This change from broker to food broker was ultimately so complete that the food broker of today attaches no significance whatsoever to the term "broker" but accepts the specialized term "food broker" to mean the same as "manufacturer's representative" or "manufacturer's sales agent." The reason these more cumbersome appellations are not used is that the less accurate title of "food broker" is simple and is now well established and well understood in the industry.

In this development into the role of salesman, the broker may have taken in a partner to assist him in this sales work. He may employ salesmen to help him canvass the many buyers in the territory, but no matter how large a selling organization he may have built up, he still serves the producers—his principals—on a commission or brokerage basis only; from the commissions received for the sales he and his organization make, he will pay the total operating costs of his brokerage establishment, which may by this time include office rent, salaries to his salesmen, clerical help, telephone and telegraph charges, and all the traveling expenses in connection with the sales activities. This is the general pattern of the growth and development of many of the successful food brokers who are today established in all the marketing centers scattered throughout the entire United States.

The history of any well established and successful brokerage concern is a genuine success story in which attainment has been due to the indefatigable work of an individual who had supreme confidence in his ability to sell. Hard work at the start; hours of drudgery in convincing stubborn or disinterested buyers that they should buy the product he is selling; miles of driving through the country from town to town in all kinds of weather from buyer to buyer in order to make sales. He has no fixed salary on which he can depend; he is paid for his work only after he has made a sale, and consequently sales are the most important thing to him. With such training a man has to be a good salesman or he cannot continue in business as a food broker.

The Food Broker Is an Independent Sales Agency.—The food broker must therefore be considered as an independent resident sales agent located in the center of a distributing area where he serves producers in a sales capacity. He is independent because he is in no manner related to those who purchase their merchandise through him—*i.e.*, his wholesale buyers. His relationship to his principals—the producers, processors, manufacturers, or sellers—is only by agreement which gives the broker the right to act as the sole sales agent or representative of these principals in a definitely described and limited territory. The broker is again independent in that he can exercise his own judgment in accepting representation for a principal, which is termed "taking on an account," or in declining the offer.

The Food Broker Has Common Interests with His Principals.—The legitimate food broker, when he takes on an account for a principal, must regard the principal's interests as his own, since he has accepted the sole responsibility for selling the principal's products in a definite territory. It is to the broker's best interests to establish a real and lasting contact between his principals and the buyers. The commission the broker makes on the initial sale or on an individual sale is not nearly so important as the commissions he will make on the succeeding sales. It is for the broker's own interest that his sales be made on a basis which is profitable to his principals so that they may stay in business and may expand and continue to provide merchandise for the broker's market and so assure him a steady income. Since the broker's income is derived solely from his principals it is obvious that motives of self-preservation will bind him to the best interests of these principals.

The Food Broker Must Have the Confidence of the Buyers.—The food broker, as he is recognized today, is *not* a buyer, nor can he be related to a buyer as an employee or a subsidiary, or in any other manner. The broker's work brings him to know intimately the prospective and potential wholesale customers in his territory. He must have the confidence of these buyers and must build up good will for himself and for his principals by dealing fairly with them. It is the broker who can supply the buyers with valuable trade information and a knowledge of market trends; in keeping the buyers posted, the broker renders the latter as well as the principal a service which is of distinct mutual benefit.

The broker's intimacy with the buyer does not have to be construed to mean that the broker may be working in the buyer's interest to the detriment of the principal whom the broker represents. This is almost always a false conclusion, because if the broker does not have the confidence of his buyers he cannot adequately represent his principal in a selling capacity. It must also be remembered that in most cases the buyer knows the broker far better than he knows the broker's principals, who are invariably located at some faraway point and may never have direct contact at any time with the many buyers of their products.

The Broker's Accounts.—No legitimate broker will take competitive accounts except under unusual circumstances, and then only with the expressed permission and understanding of the principals affected. Many brokers, and this includes some of the largest brokerage organizations, will take only a limited number of accounts, so that they can give full justice to each. However, as far as the number of accounts is concerned, it has been pointed out that many grocery items are of a seasonal nature and do not require a broker's constant attention throughout the entire year. Some items are sold only during certain months, and with such variations in marketing seasons and times a broker is justified in occupying his time fully throughout the year with as many accounts as he can handle efficiently.

On the other hand there are undoubtedly many brokers who have too many accounts to give each the attention it deserves. Such brokers invariably pay the price for what might be described as greed, because not being able to render satisfactory sales service to each of their many principals, they run the risk of losing most or all of the accounts they hold.

The Food Broker Must Have Versatile Talents.—With the diversified selling experience of the average broker it is obvious that the good broker will have tested and proved sales ability. He must acquire an accurate knowledge of trade and economic conditions in his territory. He must be constantly alert to the credit positions of his many buyers; he must watch the routing and handling of shipments; he must report to both buyers and sellers the ever-changing market conditions; he must aid his principals in the planning of the sales campaigns; he must supervise local consigned warehouse stocks; he must co-operate in the handling of local advertising, and must handle arbitration matters between seller and buyer. The responsibilities of the average food broker are indeed many, because of the completeness of the service he renders his various principals. Many of these duties and services are described in detail in the chapter on the Broker's Office.

The Food Broker's Service as a Resident Salesman.—It should be noted that the selling of food is a matter entirely different from the selling of shoes, clothing, and many other articles. In the latter the salesman starts on the road at the beginning of the season with prices that do not change all season. He has only one important duty and that is to call on all the customers. In the food and grocery industry the conditions are entirely different. Markets change rapidly and frequently in the food field; consequently it is essential for the broker to inform every buyer in his territory within a few hours regarding such market changes. As a resident salesman the food broker can reach every buyer in his trading area without loss of time. A network of food brokers spread all over the country can give a principal almost instantaneous market contacts from the Atlantic to the Pacific.

The seller, prior to reaching the point of actual sale, must know when to sell, what to sell, and at what price. As a resident sales representative for the principal, the broker is on the spot, with his fingers on the pulse of the trade. He knows the requirements of his market; the time, place, and form value of the merchandise which the seller may have to offer, and the character of the competition to be encountered. This information he passes on to his principal without charge, even if no sale is made. It is a part of his service to his principal.

Again, differences of opinion may arise between the seller and the buyer as to the exactitude with which the seller has interpreted and filled the buyer's order. The food broker, again being on the spot, can and does aid in the immediate adjustment of these differences with a minimum loss of time to both parties, all without any compensation except that which was earned in making the original sale.

The Food Broker Takes the Place of a Salaried Salesman. This partial enumeration of the functions of a food broker shows that his services can replace those of a salaried salesman with added efficiency and mobility. The broker has the further advantage of being continuously located in the territory allocated to him as a resident sales representative.

In making sales the food broker conducts himself in the same manner as a salaried salesman in that he obtains orders for merchandise from the various wholesale buyers and immediately submits such orders directly to the producer or principal. The principal then makes shipment of the merchandise directly to the buyer without passing it through the hands of the broker. The principal issues the invoices to the various buyers for their purchases and makes the collections. When the broker has made a sale he has completed his chief function. It is very exceptional for the food broker ever to take physical possession of or title to the merchandise he is selling.

The Broker Must Exercise Caution When He Takes an Account.—When a food broker elects to take on an account, he first informs himself fully about the product. He must know what it is, its uses, how it is made, how it is packaged, the price at which it is to be sold to the wholesaler or direct buyer, and the logical price which the ultimate consumer must pay for it. From all this information he reaches his own conclusions, based on his intimate knowledge of merchandising and of the economic status of his particular market, as to the potentialities of the new product and whether or not he can successfully market it in his trading area.

Once assured that the product is worthy, that it will fill a demand, that it will meet with consumer acceptance, and that it will grow in popularity, the food broker next looks into the standing of the manufacturer or seller. The introduction of a new product by an old and well established producer makes this step more or less perfunctory, but a new or unknown manufacturer entering the field must be willing to submit himself to the close scrutiny of the food broker from every angle. He must show that he is responsible and adequately financed and that he can make and will continue to make a wholesome and meritorious product.

The broker realizes that when he presents the new product to the buying trade there will be the implication that he stands sponsor for the unknown manufacuter and the new product. The broker must take these precautions because he cannot neglect to safeguard and maintain the good will he has built up with his customers.

How the Broker Proceeds with the Selling Campaign.—When the broker has assured himself as to all the particulars regarding the product and the manufacturer and concludes that he can undertake the selling of it without prejudice to himself and his good name, he then proceeds with a sales campaign as does any other salesman. He brings the new product to the attention of the distributors or wholesale buyers and gives them all the information he has acquired through his prior investigations as to what the product is, how it is made, the price at which it will be sold to the wholesaler, the probable price to the consumer, the standing of the manufacturer, the terms of sale, and all other pertinent information. He demonstrates the product by showing samples and employs his best ability to make a sale. He may succeed in this at the first interview or he may be obliged to call on the buyer again and again at frequent intervals until finally such sales resistance as may have existed is broken down and the first order is taken.

The food broker conducts the selling campaign only with the *wholesale buyers* of the commodity. He acts as sales agent between the producer and his wholesale customers. As indicated in Exhibit 1, the broker functions as sales representative between the producer and the wholesale grocer or the direct-buying chain-store group. The food broker does *not* sell to the grocery retailer. If sales are to be made to retailers they are made by missionary or specialty salesmen, as will be explained later.

In addition to selling the products to the direct buyers who will in turn pass them on to the various types of retail outlet, the food broker will sell to other large-quantity direct buyers who may have occasion to use such products in manufacturing processes. For instance, a food broker with a sugar account not only will sell the wholesale grocers and the chain-store groups their sugar requirements, but he will offer sugar to other large users of the product, such as bakeries, manufacturing confectioners, canners, and the like. If the product is one that will sell through the medium of the drug wholesalers as well as through the grocery trades, then the broker will canvass the wholesale druggists in order to secure distribution for his principal through the retail drug stores. Thus the food brokers give the manufacturer an opportunity to distribute and sell his product through any channel that can use it in large quantities.

Forms of Brokerage Organizations.—Some brokers, particularly those who operate in a limited area with a small population, attend personally to all sales contacts with buyers and employ no other sales assistance. Others who cover a wide territory containing many direct buyers will employ salesmen working on a salary or on a commission basis to assist in covering the trade regularly. Many brokerage concerns are partnerships with the partners actively engaged in the sales work. A large number are incorporated companies employing a very large sales and office personnel.

The average food brokerage organization will have a personnel of perhaps from six to seven persons, including the owners of the business. In the larger markets, where many salesmen are required to keep the offerings continuously before many buyers, there may be as many as twenty or more members in the organization. Most brokers maintain a sales office, which can be found generally in an office building near the wholesale grocery section of the town or city, or which may be located in a public warehouse or in a warehouse owned or rented by the broker.

The office of the broker will be equipped with telephones and sufficient clerical help to handle the routine office work, such as typing orders to be sent to principals, handling the necessary correspondence by mail or telegram, issuing quotations to buyers, and attending to other requirements for making sales and for furthering the interests of the principals. Most brokers have, in connection with their offices, sample rooms, in which the products featured by the organization are kept on display for sampling and demonstration purposes.

Many brokerage concerns have branch sales offices in various important marketing centers of the area in which they operate. A broker with his main office in Syracuse, N. Y., may have branch offices in Albany and Buffalo. A broker in Philadelphia may operate a branch office in Harrisburg, Pa. Some very large brokerage concerns have as many as ten or more such branch offices located in different cities in several states. For instance a brokerage concern in Los Angeles has branch offices in Tucson and Phoenix, Ariz., El Paso, Tex., and Albuquerque, N. M., and gives his principals a complete brokerage coverage in southern California and in the states of Arizona and New Mexico, including the west Texas area adjacent to El Paso. One brokerage organization has fourteen branch offices in thirteen Central states.

The Broker Can Provide Missionary Sales Work for His Principals.—It frequently is necessary, in marketing certain food products or grocery items, to conduct what is known to the trade as "missionary work" among the retail customers of the various wholesale distributors. Many food brokers are equipped to furnish the manufacturer with tried and tested missionary or "specialty" crews which are employed and trained by the broker and are shifted from product to product, from one principal's account to another as the broker directs and as and when his principals desire such services. Highly specialized food and grocery items often require this extra selling effort.

The average wholesale distributor or jobber of grocery products may stock as many as four or five thousand different items. It would be impractical for the salesmen employed by the jobber to place an inordinate selling emphasis on just one of these many items when orders are solicited from retailers. The specialty salesmen employed by the broker can visit these retail stores and by centering the buyer's attention on just one item can usually effect a sale and thus secure a distribution of the product in the retail store in lieu of the jobber's salesman. The retailer can select the particular wholesale distributor who will deliver and invoice the order. Such retail distribution not only benefits the jobber who delivers and collects for the retailer's purchase, but the producer gains by having his goods now placed where they can be readily purchased by the consumer.

The Broker Always Receives Extra Compensation for Extra Sales Work.—As indicated previously, the food broker's primary function is to sell only to the wholesale buyers. The brokerage he receives from his principals is based only on these wholesale orders. When the food broker is obliged to perform specialty or missionary work to further the distribution of a product among the retail stores, extra compensation is paid him by the principal for this effort.

Brokers will invariably charge the principal with the exact cost of the specialty crew during the time they are working on a principal's account. This is economical for the producer, because he has at his command the services of a highly trained force of specialty salesmen who are familiar with the local retail trade and can canvass a city with speed and efficiency with no waste of time. The producer is obliged to pay for this crew only for the period of time they specialize in selling his particular product, and they are always available for his use as and when he requires their services.

The producer's cost for this specialty work will range from $25.00 to $35.00 per week per man depending on the market in which they are operating. It has recently been reported that an enterprising broker in the Middle West has equipped his crew of specialty salesmen with small panel-dash body trucks in which they carry the advertising material and samples they dislike to carry around in a regular passenger car. Eight products are being pushed simultaneously by this crew of specialty men and four of them are reproduced in natural colors on the panels on each side of the truck. The eight principals pay on a prorata basis for this specialty service to the broker who operates the crew, and their combined payments cover the cost of salaries for the crew and the maintenance of the truck.

The Broker Will Supervise the Principal's Specialty Crews.—If the producer should decide to use his own crew of specialty salesmen—a crew which is trained, employed, and paid from the manufacturer's pay roll—to call upon and make sales of his product to the retail grocers, the broker is capable and always willing to direct their activities for the benefit of his principal and seldom requests extra compensation for his assistance. Although such crews may be highly trained in a knowledge of the product they are selling, they are rarely familiar with the local markets in which they are obliged to conduct their particular efforts. The local broker, who knows the streets, the locations of the retail stores, the types of retail merchants to be visited, can direct and guide these crews for maximum efficiency and the greatest economy of time and expense in covering the market.

Sometimes in connection with the introduction of a new item which the producer intends to push through local advertising or sampling or both, the broker can and will act as his local agent for placing the advertising material and in directing the work of the sampling crews.

These services mean, of course, extra work for the broker for which he receives no compensation; but in addition to the responsibility of directing the producer's specialty crews and supervising the advertising or sampling campaign, the broker is obliged to clear all retailer orders through the various wholesalers to insure delivery and to see to it that these wholesalers buy enough of the product to fill these retailer orders promptly and to provide for future repeat sales.

When the many details of making these sales and of performing all of this extra service is finished, there is only one compensation to the broker and that is the commission paid to him only when and if a sale is made. These brokerage payments, furthermore, are seldom made by the producer or principal until after the merchandise has been shipped to the wholesale buyer and the invoice paid in full.

Many Brokers Offer Warehouse Facilities.—Some brokers offer warehouse facilities to the principals they represent. These warehouses make it possible to maintain a floor stock of the product at the broker's location for prompt distribution to local and near-by customers. Many principals find these warehouse stocks indispensable for meeting local competition. Since it is unethical for a food broker to purchase any merchandise for resale on his own account and at his own risk, the merchandise stored in his warehouse is always the property of the principal; when deliveries of merchandise are made from his warehouse to fill an order received from a wholesale buyer, the invoicing of it is usually made by the principal and not by the broker. The broker simply effects delivery and notifies the principal of it so that the latter can render the proper invoice to the buyer. Principals who store merchandise in a broker's warehouse always pay him an extra compensation in the form of regular storage rates for this service.

Some brokers offer warehouse facilities to their principals because of arrangements which a broker will make with a local public warehouse in which the merchandise can be stored at fixed rates payable by the principal to the warehouse operating company. These public warehouses are usually equipped to handle all phases of shipping in and out of them; such movements may be supervised or even authorized by the broker when he is given such responsibility by his principal.

The Broker's Service in Regard to Consigned Stocks of Merchandise.—Frequently consigned shipments of merchandise are made by principals so that stock will be available in the broker's market for prompt deliveries to buyers in such quantities as they may desire. Such shipments are usually stored in public warehouses in the name and for the account of the principal who makes the consignment. The food broker will frequently order deliveries or make new sales from such consigned stocks. The warehouse is generally selected upon the recommendation of the broker, who investigates and makes recommendation based upon convenience to the trade for deliveries, the condition of the physical property, its construction, conveniences, etc. The principal cannot hope to be in every market in which he has a substantial investment in consigned merchandise to protect his stocks against unfavorable weather conditions, as and when they occur. The broker, with his expert knowledge of the nature of the consignment and the conditions under which it must be stored, acts for the benefit of the principal in keeping a close watch on the merchandise stored in his territory. Some items, as for example dried fruits, are subject to deterioration in warm weather and therefore must be protected by refrigerated storage during hot months. Certain bulk and packaged cereals are subject to infestation likewise in hot weather and require special handling and protection. Some products must have intensely cold storage, others mild or bland storage, still others warm storage in severe cold weather to guard against freezing or spoilage. Obviously a distant principal owning such merchandise on consignment would be helpless without interested and expert service on the spot, and the food broker furnishes this service to his principal at all times.

The Broker Can Perform Every Sales Service Requested by a Principal.—From this description of their functions and capabilities in sales service, it can be seen that the food brokers of America are equipped and trained to render every kind of marketing service to any producer, large or small, who avails himself of the facilities of these independent sales agents. Many of the food brokers in the United States have been in this business for many years and have been highly successful. To be successful in this line one must be an excellent salesman and know every art of the trade; or, putting it another way, men who are excellent salesmen can become successful brokers. The producer who uses the services of brokers for the sale of his products need have little worry about the talent for salesmanship possessed by the food brokers he appoints. It can be stated without fear of contradiction that almost any item that is sold by the grocery trade can be successfully marketed through the medium of food brokers.

The Broker Is Frequently Penalized for His Success.—The brokerage trade is one of the few vocations in which a man is apt to pay a penalty for his success by the loss, through no fault of his own, of an account which he was instrumental in making an important factor in the food field. It has been stated that most of the popular trademarked food items on the market today were first introduced by food brokers. Sales through these successful brokers were discontinued in some cases after the merger of a number of successful food manufacturers into one large holding company made it possible to substitute salaried salesmen for brokers because the salaried personnel could offer a large number of items, made by the various units of the corporation, at one time to the wholesale buyers and through such combined selling efforts keep the sales costs at a comparatively low level. It is generally through such mergers that the brokers are penalized for their successes.

It is interesting to note here that many manufacturers who replaced brokers with salaried traveling salesmen during the period of flourishing business between 1924 and 1929 in the hope of lowering selling costs were obliged to discharge these salesmen and return to marketing through food brokers when confronted with the loss of consumer purchasing power in the years that followed 1929. This experience convinced many producers that the best, cheapest, and most efficient manner of selling food products is through the food brokers, because only through them can real flexibility in sales efforts be attained and selling costs kept within a predetermined limit.

All Brokers Are Not Good Brokers.—There are exceptions to every rule, and from the descriptions of the broker's selling potentialities given in these pages the conclusion should not be reached that all food brokers are good sales agents. Many new brokers appear in the various marketing centers from time to time who are incapable of success in this field. The trade is open to all, and under such circumstances there is a constant influx of new aspirants who take a chance at the trade with the hope of success and drop out of the race when they discover they do not possess the necessary talent for this kind of endeavor. There are perhaps a few successful brokers who are resting on their laurels and are not so active as they should be. Occasionally one will prove to be dishonest, but the percentage of rogues in the trade is certainly no higher than can be found in any other field, if as high. The dishonest broker is soon found out, for news travels fast in the grocery trades because of the many personal contacts, and such a broker has much to lose —not only the confidence of the buyers on whom he has to depend for orders, but the confidence of all the principals he may represent. Such a broker has a small chance of remaining active in the field.

The Code of Ethics of the National Food Brokers Association.—Most of the leading food brokers in the United States are members of the National Food Brokers Association. This association was founded in 1904 by a number of prominent food brokers for the purpose of establishing standard practices in selling and for the adoption of a code of ethics to which the members would subscribe. The code adopted by this association is as follows:

1. The food broker is the economic link between seller and buyer and should always maintain the dignity of his position.

2. The foundation of the food broker's business is honesty and complete fairness to seller and buyer alike.

3. The division of brokerage with either seller or buyer by the food broker is highly unfair competition and is disapproved by reputable sellers and buyers.

4. The food broker should always respect the rights and business of competitors.

5. The principals represented by a broker constitute his stock in trade, and any deliberate attempt on the part of another broker to interfere unfairly with a view of securing such representation is decidedly not good brokerage ethics.

6. The food broker who merchandises speculatively in food stuffs is unethical.

7. The food broker accepts the principles of arbitration, will support the National Uniform Plan of Arbitration, and should include in all sales memoranda and contracts the prescribed arbitration clause.

8. The food broker should express his acceptance of this code by his support of the National Food Brokers Association, which sponsors the code and which is organized so that through unity of thought and purpose the business of the food broker may be advanced.

FIELD AND PRIMARY BROKERS

The foregoing textual matter is confined to a description of the average "general food broker" of food and grocery items, a classification that includes the great majority of all the food brokers who are located in practically every marketing center in America.

No description of brokers in this field would be complete without mention of the "field and primary market" broker who plays a highly essential part in the marketing of food products. Since this broker is a specialist and does not function in the same manner as the general food broker, the two types of broker must be differentiated: the field and primary market broker is the economic link between a number of small producers and the general food brokers, whereas the latter is the sales medium between a producer and a wholesale buyer. To make this clearer it must be pointed out that the field and primary market broker employs the services of general food brokers in the various marketing centers to assist him in bringing the products of a large number of small producers to the attention of wholesale buyers in these markets. When a general food broker is associated with a field and primary broker the latter acts as the principal of the former.

The title "field broker" implies one who operates in the center of a field of large production, in which are located many small producers of canned foods or of a specific commodity or class of commodities. Such a center of production by small units is the so-called "tri-state" field which is located in Delaware, Maryland, and New Jersey. For this particular area there are field brokers operating in Baltimore, Bel Air, Easton, and other points along the eastern shore of Maryland close to the source of supply of competitive, standard quality, and usually low-priced staple canned vegetables, such as peas, corn, tomatoes, string beans, and other products of the farms of this region.

In this tri-state field there are at this time 295 canners (Delaware 41, Maryland 204, New Jersey 50), many of whom are small concerns operating factories which pack but one product or line. Of course it would be impractical for each of these small packers to have a sales organization for marketing the limited output. Likewise it would be difficult for such small canners to have direct connections with a sufficient number of general food brokers in the principal distributing centers to give them a quick and profitable market for the limited quantities of canned foods they produce. Furthermore, if the cannery is small, producing perhaps 50,000 cases or less in a season, such an account would not be particularly interesting to many of the general food brokers, because the supply is so small that it might be sold before many of them would be able to start a selling campaign in their own markets.

This economic condition necessitates the services of a field broker who is acquainted with and frequently visits these small canners in his vicinity. He understands their problems and they understand and appreciate his efforts in their behalf. As a sales outlet for this group of small canners the field broker will establish his own list of associate or subbrokers among the general food brokers in the various distributing markets located where freight rates permit competition with the products of other fields.

The field broker, in his relationship with his associate brokers, acts just as any other principal in keeping these subbrokers posted at all times on the commodities available for sale from the small packers, the prices of these commodities, conditions of the market, etc. When the associate broker sends an order to the field broker, the former will not necessarily know just which of the many packers in the field will be able to fill it. He may at times specify a certain packer because of the known quality of his products or for some other legitimate reason, but customarily the order is taken from a buyer on the basis of the total market offerings and subject to the buyer's approval of the submitted samples. The field broker, knowing some one or more canners who have the particular commodity which is especially desired at that time and knowing something of the requirements of the associated broker's market, will send samples or have them sent direct from the cannery and quote the prices.

The Field Broker Acts As a Clearinghouse for the Products of Many Small Producers.—The field broker can accordingly be considered as a clearinghouse for a number of small local canners who in the aggregate have a large variety of canned foods to sell. When a sale results, the field broker collects the full commission or brokerage from the canner. In turn this commission is divided by the field broker on an equal basis with the associate broker who actually made the sale. If the field broker receives a 3 per cent brokerage from the canner, the associated broker will usually get half for his work in making the sale.

While the associate broker knows that he could get a full brokerage on direct sales from the packer to the buyer, he is usually satisfied with half brokerage on the sales he makes through the field broker, because the expense of completing the sale is reduced to an absolute minimum. In other words one telegram to his field broker will give the associate broker the pick of the market as to quality and price; samples will immediately be forwarded to him of the qualities he desires for his trade, and the sale may be completed with no loss of time. In contrast to this would be the possibility of the associate broker, ignoring the field broker's service, making direct representation arrangements with six or perhaps a dozen different canners all producing the same commodity. With orders for such goods in prospect and no recent quotations that he could use, the direct representation broker would be put to the trouble and expense of wiring each of these principals for prices, for information regarding the quality and quantity of the merchandise available, and for samples. It might happen, as it frequently does under such circumstances, that none of his canners has the type of product the broker requires or that all of them are out of the market for the time being, or again that none has the quality desired for the particular transaction. It can thus be seen that the field broker fills a real economic need in serving these small canners for the prompt sale of their pack by marketing it through associate brokers who will present a great variety of requisitions.

The Field Broker Occasionally Finances the Small Producer.—Some field brokers in the tri-state area go even further than merely acting as sales agents for these many small canners. Quite frequently they reach the status of factors to the extent that they will either finance the production in part or completely, or endorse notes for loans and thus lend their credit to these small canners to assist them in the packing of the various commodities. In some instances the field broker will pay outright for the canner's supplies, such as cans, cases, labels, etc. In return for such financing or factoring, the field broker is protected in his financial interest in the operations by having prior claim to the finished products or by taking possession of them. In addition, it is usually customary for an extra 1 per cent or more to be added to the brokerage or commission payment of the field broker, in order to pay for this extra service of factoring or financing.

Field Brokers Operate in Many Packing Centers.—In Columbus, Ohio, and in Indianapolis, Ind., there are a number of field brokers who draw their supplies of canned foods from 73 canners in Ohio, 168 in Indiana, and 96 in Illinois. These canners are not necessarily small, and many if not most of them have their own direct broker representatives in the larger distributing centers. However, the total output of corn, peas, and tomatoes among the 337 canners in these three states is so substantial that it is helpful to the canning industry, to the local food brokers, and to the distributing trade, to have field brokers in the center of these canning activities who are fully informed as to the location and quality of all the stock available.

In Milwaukee, Waukesha, and Madison, Wis., there are a number of field brokers who draw upon the supply of the better quality of canned peas produced by the 149 Wisconsin packers. In 1937 Wisconsin produced 30 per cent of all the peas canned in the United States, which is more than twice as much as the total pack of the two states having the next largest pack. This large supply is a magnet, and field brokers in this district are in constant touch with all the canners in order to keep fully informed on the size, quality, and value of each canner's stock; these field brokers are of incalculable value to their associate brokers and to the distributing trade in general because they facilitate transactions to a remarkable degree with a pack of such magnitude.

There are a large number of field brokers generally located in Springfield and Kansas City, Mo., and in Fayetteville, Ark., because of the large pack of canned tomatoes, string beans, and spinach produced in the Ozark region of southwestern Missouri and the northern part of Arkansas.

Primary Market Brokers on the Pacific Coast.—On the Pacific Coast there are a great many field brokers operating among the 241 fruit and vegetable canners of California, the

169 fruit and berry canners in southern Washington and Oregon. In Seattle there are a number of field brokers who operate exclusively among the Alaska, Puget Sound, and Columbus River salmon canners. On the west coast the tendency is for the field broker to refer to himself as a "primary market broker," and especially in the salmon industry, the associate broker is referred to as the "field broker," *i.e.*, the broker in the field of distribution. In San Francisco there are a number of these primary market brokers who have contacts with and access to the products of the many fruit and vegetable canners who specialize particularly in fruits. These brokers serve an excellent purpose in assembling mixed cars of the various commodities. For example, one canner may have peaches but no apricots, another apricots but no peaches, while a third has pears and perhaps a fourth has cherries or plums. The primary market broker can bring all of these products together for the benefit of the buyer. This type of assembly is also used for the many varieties of berry and small fruit items produced in the canning regions of Oregon and Washington.

The salmon primary market broker in Seattle operates on a slightly different scale. Here again he will serve substantially as a factor, furnishing supplies of credit and sometimes financing the canners to help them equip the ships that go up to Alaska to the canneries with materials for making cans, cases, etc., furnishing the labels, and then handling the warehousing and distribution of the pack when the cargoes come down from the canneries.

In every instance these field or primary market brokers serve a very real need, as has been briefly described. On such commodities they receive a slightly higher than normal rate of brokerage because it is known by the producer that they must divide what they receive with their associate brokers, who are scattered throughout the various marketing centers, where they are in constant contact with the wholesale buyers of these commodities. Again, as has been previously explained, where the furnishing of supplies, credit, or finance is an important factor, an extra 1 per cent or more is paid by the producer for this accommodation.

Commodities Usually Sold through General Food Brokers.—A partial list of food and grocery trade items which are generally sold through food brokers includes the following:

Beverages, including carbonated drinks, brews, fruit juices, tomato juice, beer, wines, cordials, whiskey, gin, rum, etc.
Candy, including marshmallows, packaged goods, candy bars, chewing gum, and other confectionery.
Canned foods, including domestic and imported, vegetables, fruits, fish, meats, milk, etc.
Cans or containers, including fiber and tin.
Cartons, fiber, wood, or paper.
Cereals, bulk and packages, breakfast foods, corn meal, grits, hominy, rice, etc.
Cheese, imported and domestic.
Chocolate and cocoa, packaged and in bulk.
Coffee and tea, green and roasted, packaged and in bulk.
Condiments, including catsup, chili sauce, tobasco, salad dressings, mayonnaise, etc.
Cooking compounds, vegetable shortening, cottonseed oil, etc.
Cottonseed products, including cake, meal, oil, etc.
Crackers and biscuits.
Dessert powders, cornstarch, etc.
Dog and pet foods, packaged and in cans.
Dry beans and dried peas, grown in New York, Michigan, in the Rocky Mountains, and on the Pacific Coast.
Fish, fresh, salt, smoked, and canned.
Flour, barreled, sacked, and packaged, including prepared flours for cakes, pies, biscuits, pancakes, etc.
Frosted foods or quick-freeze foods.
Fruits, barreled and cold-packed, dried fruits, canned fruits, fruit *glacé*, fresh fruit.
Gelatine and jelly powders in packages, etc.
Glassware, including fruit jars, bottles, milk bottles, bottle caps, bottlers' supplies, lamp chimneys, etc.
Hay, grain, and feed.
Honey, packed in tin and glass.
Ice-cream cones.
Insecticides, fly paper, etc.
Jams, jellies, preserves, pectin, etc.
Macaroni and spaghetti, packaged and in cans.
Matches.

Meat, imported and domestic, in tins and glass, exclusive of fresh meats.
Milk, canned, evaporated, and condensed.
Nuts, domestic and imported, shelled and unshelled, in bulk, in cans, and packaged, including coconuts, pecans, walnuts, almonds, peanuts, etc.
Oils, including corn, olive, peanut, cottonseed, and other edible oils; also linseed, lubricating oils, etc.
Paper, wrapping paper, bags, etc.
Peanut butter, bulk and packaged in glass.
Pickles and olives, in glass, tin, and bulk.
Popcorn, bulk and packaged.
Salt, bulk and packaged.
Sirups, including molasses, corn, mixed sirups, maple sirup, etc.
Soap, washing compounds, soap chips, lye, cleaners, etc.
Soups, canned, tomato purée, etc.
Spices, packaged and in bulk.
Starch, bulk and packaged.
Sugar, bulk and packaged.
Twine, rope, binder twine, etc.
Vinegar, in barrels and bottles.
Woodenware of all varieties.

CHAPTER 3

SELECTING AND APPOINTING A BROKER

When it has been decided by the producer to market his product through food brokers, the next consideration will be a selection of the brokers who will successfully carry out the marketing or selling program in the areas in which the sales campaign is to be conducted.

Where Food Brokers Are Located.—In every marketing center of the United States can be found good general food brokers with established reputations for sales ability, honesty, and loyalty to the principals who use their selling services.

The best known and most complete directory for the names and addresses of these many brokers is the *Thomas Wholesale Grocery and Kindred Trades Register*, which is published annually by the Thomas Publishing Company of New York, N. Y. This register can be purchased by subscription from the publishers for $10.00 annually. The 1938 edition of the Thomas Register contains the names and addresses of approximately 3,100 brokers located in over 400 cities and towns in 44 states and the District of Columbia. It also lists food brokers in Hawaii, Cuba, Mexico, Puerto Rico, Panama, Denmark, Norway, Sweden, Newfoundland, Quebec, Ontario, Nova Scotia, New Brunswick, Manitoba, British Columbia, and Alberta. With each broker's name appears a brief list in code of the type of products handled by each and a rating of the capital employed in the business. The capital rating is not of much importance to the principal, since the general food broker is not a purchaser of the products and will not seek credit or require it in his sales operations.

Analysis of Brokers Listed in the Thomas Register.—An analysis of the 3,100 brokers listed in the Thomas Register indicates that about 1,500 of them are "general food brokers" within the meaning of the description of a food broker given in Chapter 2 of this book. These are the food brokers who are engaged in marketing a general line of grocery items and food products which they offer to the wholesale buyers of such commodities, and it is from these 1,500, more or less, that the principal will select the brokers he will require to sell his products in each of the many marketing centers. In the United States these brokers make regular sales contacts with a total of more than 5,400 wholesale grocery firms and with approximately 800 corporate chain-store organizations (of five or more retail stores each) operating a total of more than 53,000 retail stores. Included among the 5,400 wholesale grocers are 570 jobbers who sponsor an equal number of voluntary retail grocery chain-store groups. In addition to these regular buyers of grocery items most general food brokers visit the buyers for bakeries, packers, candy manufacturers, and other large purchasers of food products, if these are potential customers for commodities handled by them.

Among the other brokers included in the 3,100 names given in the Thomas Register are several hundred grain and feed merchants who may sell packing-house products in a limited way to the wholesale grocery trade on a commission or brokerage basis. The list also includes several hundred commission men, located principally at ports of entry, who sell as brokers for importers and exporters and who handle a single commodity, such as tea, raw sugar, and the like, and sell only to a limited trade handling such a commodity. The remaining brokers on the list are concerns operating in small and very limited markets who play no important part in the food industry as a whole, but who must be classified and included as food brokers in any complete general directory or register. It can be seen from these classifications that a distinction must be drawn between the 1,500 general food brokers who are acting as sales representatives or agents throughout America, selling a general line of grocery items, and the other listings in the Register which cover a miscellany of trades which may or may not be related to the subjects covered in this work.

The Biennial Directory of Members of the National Food Brokers Association.—Another directory of food brokers is the biennial *Directory of the National Food Brokers Association,* which contains the names and addresses of all the general food brokers in the United States and Canada who are members in good standing in that Association. This directory can be obtained without charge by addressing the office of the secretary of the association at Indianapolis, Ind. The brokers listed in it are all general food brokers within the full meaning of the term as it is used in this book. This directory indicates in general the type of grocery item handled by each member.

Both of these directories are classified by cities and states, so that it is a simple matter to procure the names and addresses of food brokers who feature or specialize in every type of grocery product in every marketing center of the United States.

Food Brokers Recommended by Jobbers.—Information regarding brokers can also be obtained readily by inquiries to the various leading wholesale grocery houses in each marketing center, but this method is not always satisfactory. Perhaps the general feeling of brokers regarding such sources of information is expressed in a letter the author received from a prominent West Coast broker from which the following is quoted:

> First, I feel that all principals are most anxious, and rightly so, to have their interests safeguarded the same as the buyer's. Yet at the same time when they choose a broker, they, in the majority of cases, follow the advice of the jobbers in the territory that is being considered. They fail to realize apparently that most jobbers have their favorite brokers and recommend their preferences accordingly. Quite often their particular preference is prompted by the thought that they may

secure special consideration in the event the broker of their preference is appointed. The principal seemingly overlooks this most human attitude, but later on is prone to complain that the customer is being favored over his own interests. When choosing a broker, if a principal really wants results and his interests considered on an equal basis with the buyer's, I feel he should first choose a broker from his own knowledge of his ability, and if there is nothing in the broker's record to indicate that he is other than a clean operator, and not a "yes man," this should be sufficient recommendation, as, personally, if I were employing brokers I would lean more towards the broker who is second or third choice with all the jobbers rather than to one who is the favorite in some instances even with the large buyers.

Local Brokers' Associations in Many Cities.—Inquiries regarding food brokers can also be sent to the various local associations of food brokers which exist now in 46 of the largest American cities. These local associations are all affiliated with the National Food Brokers Association and inquiries regarding them can be addressed to the secretary of the National Association at Indianapolis, Ind., who will be pleased to furnish a principal with the names and addresses of their officers.

The National Food Brokers Association.—Most of the leading food brokers of America are members of the National Food Brokers Association, but membership does not necessarily indicate that only the best food brokers are included in the organization. There are many good general food brokers who are capable, reputable, and ethical and who do not belong to the Association. Few large associations can be unanimous, because of occasional prejudices, personal feeling, or other minor objections. However, since there are approximately 1,500 general food brokers in America and the Association has about 1,000 members, it can be seen that two-thirds of all those operating in the United States support it.

The Brokers' Annual Convention.—The Association meets in convention once each year for the election of officers, committee reports, and other matters relating to the welfare of the members. The convention is generally held during the last full week in January and always meets in conjunction with the convention of the National Canners Association. This joint convention enables many principals, especially such as are members of the National Canners Association, to come in contact once each year with their brokers from all over the United States. These conventions have been held in Chicago for many years, since this city is centrally located and contains a sufficient number of large hotels to handle a meeting of this magnitude. Principals who market their products through food brokers will find it advantageous to attend this convention because of the hundreds of brokerage contacts possible on such occasions.

A Summary of All Listed Brokers Showing Numbers of Brokers in Each State Including Members of the Association.—A summary by States of all the brokers listed in the 1938 edition of the Thomas Register and in the most recent Directory of the National Food Brokers Association is shown in Exhibit 2.

How the Principal Can Communicate with Eligible Brokers.—When the territory in which the sales campaign is to be conducted is decided upon, the principal can communicate with the selected brokers in the various marketing centers of the area to ascertain those who would be interested in taking on the account.

Through the use of the suggested directories letters can be addressed to several of the brokers in each marketing center who appear to be best fitted to sell the item in question. The initial letter should briefly describe the product to be marketed with the request that, if the broker has no competing item and would be interested in handling the product, he communicate promptly with the principal. The letter can be written, without embarrassment, to several brokers in the same city at the same time to ascertain, without delay, those who are eligible for the account in that they have no conflicting or competing lines. Furthermore, in these initial letters there can be included the

EXHIBIT 2

State	Population	Total number of brokers	Cities located	Broker members of N.F.B.A.
Alabama	2,646,248	86	16	14
Arizona	435,573	16	2	8
Arkansas	1,854,482	41	10	13
California	5,677,251	88	7	83
Colorado	1,035,791	48	4	16
Connecticut	1,606,903	9	2	2
Delaware	238,380			
District of Columbia	486,869	18	1	7
Florida	1,468,211	74	15	21
Georgia	2,908,506	98	19	19
Idaho	445,032	7	2	1
Illinois	7,630,654	176	13	52
Indiana	3,238,503	61	9	22
Iowa	2,470,939	50	13	28
Kansas	1,880,999	16	6	10
Kentucky	2,614,589	51	9	14
Louisiana	2,101,593	112	12	14
Maine	797,423	11	2	1
Maryland	1,631,526	66	11	14
Massachusetts	4,249,614	87	3	35
Michigan	4,842,325	69	9	26
Minnesota	2,563,953	64	3	19
Mississippi	2,009,821	44	17	8
Missouri	3,629,367	109	8	49
Montana	537,606	12	3	9
Nebraska	1,377,963	20	2	13
Nevada	91,058			
New Hampshire	465,293			
New Jersey	4,041,334	5	2	3
New Mexico	423,317	12	2	5
New York	12,588,066	396	14	97
North Carolina	3,170,276	87	32	14
North Dakota	680,845	6	2	1
Ohio	6,646,697	128	16	44
Oklahoma	2,396,040	37	14	18
Oregon	953,786	42	1	13
Pennsylvania	9,631,350	194	17	69
Rhode Island	687,497	10	3	3
South Carolina	1,738,765	56	17	11
South Dakota	692,849	5	2	4
Tennessee	2,616,556	112	14	30
Texas	5,824,715	174	35	61
Utah	507,847	27	2	11
Vermont	359,611	1	1	
Virginia	2,421,851	96	18	23
Washington	1,563,396	75	6	26
West Virginia	1,729,205	37	9	15
Wisconsin	2,939,006	55	10	17
Wyoming	225,565			
Totals	122,775,046	2,988	405	967

request for the names of other brokers in the territory who could be recommended to handle the product in the event the particular broker to whom the letter was addressed is unable to take on the account. Most food brokers, if they cannot handle an item, are willing to suggest another good broker who may be able to do justice to the product and the principal.

A Suggestion for Greater Efficiency in Locating Eligible Brokers.—It would be of great assistance to principals who are seeking brokers if the National Food Brokers Association could act as a clearinghouse for such inquiries at the office of the secretary of the association at Indianapolis, Ind. To such a clearinghouse the various members of the Association could furnish at all times an up-to-date and complete record of all the accounts handled by them. It would be too much to expect every broker to file with such an office a complete list giving each principal's name; few brokers would care to divulge such important information to any agency, no matter how confidentially the agency might treat such matters.

The directory of the National Food Brokers Association now contains a rough classification by product denoted by a code of numbers appearing after each member's name, but this classification is not sufficiently detailed to be of much use to a principal. If this classification were more complete, so that a principal could tell at a glance whether or not a particular broker were eligible to handle the account, it would save him much of the time he now has to employ in questioning the various brokers by letter. For instance, the numeral 4 in the code after a name in the directory indicates that this broker handles canned foods, including imported, domestic, fish, fruits, vegetables, meats, milk, tomato juice, etc. This is too broad a classification for such important items, each one of which is a major account in itself, and there are few brokers who handle simultaneously every item mentioned in this list. A broker may have a good canned-vegetable account but no canned-meat account, and the principal who desires to market a line of canned meats cannot determine the eligible brokers from this classification. The only alternative for the principal is to address letters to every brokerage concern in a marketing center, asking each if he is able and willing to take on a canned-meat account, thus divulging the marketing intentions to all brokers regardless of their prior affiliations.

Brokers would certainly have no hesitation in supplying a central office with more detailed information regarding the accounts they carry, provided they were not obliged to mention the principal's name; in possessing a more detailed classification, the office of the secretary of the association could supply any principal on request with the names of those members in any marketing center who do *not* have, let us say, a canned-meat account. With such specific information the principal could confine his correspondence to the brokers eligible for his account.

The Broker Requires Samples and All Sales Information from the Principal.—When a broker expresses his interest in the product and his willingness to represent the principal, the latter should then send to the broker samples of the product with full details about its nature and merits, the wholesale prices, and the rate of brokerage to be paid. On receipt of this material and information, the broker will then have an opportunity to examine the product carefully and appraise its sales potentialities for his market. If he is convinced that the product is meritorious and can be sold to the wholesale distributors in his territory, he will advise the principal to that effect and express his willingness to represent the principal in that market under the stipulated brokerage rates.

Only One Broker Is Appointed in Each Sales Territory.—Since a broker is the *sole* selling agency for the principal in the territory in which the former operates, it is obvious that only one broker is appointed by the principal to sell the product or line of products in any one marketing center; consequently the matter of the territory allocated to each broker is quite important and is treated in full detail in Chapter 5 of this book.

The Broker Requires Written Confirmation of His Appointment.—It is customary for the principal to send the broker who accepts the account a letter of confirmation to the effect that he hereby appoints this particular broker the sole agent or selling representative for his product in a carefully defined area. The specified rate or rates of brokerage are again given in full detail, and the intervals at which payments will be made should also be stated. This has usually been the only formality in the appointment of a broker.

Personal Contact between Broker and Principal Is Desirable.—Personal contact by the principal with the broker is of course more effective than negotiations by correspondence. When the two parties meet face to face, they can cover many more subjects and details by conversation than they can by writing letters. These personal interviews are valuable in that the broker and the principal have an opportunity to become acquainted; they quickly establish the personal relationship that should always obtain between a broker and his principal just as it exists or should exist between a producer and his salaried salesmen.

The Standard Brokerage Agreement as Formulated by the National Food Brokers Association.—For a long time the National Food Brokers Association has attempted to develop a standard form of brokerage agreement which would protect both the broker and the principal, but there are so many possible variations in the services a food broker can render a principal that a standard form embracing all the possible factors in this relationship is very difficult to prepare. The following tentative agreement has been drawn up by special committees of the association, in cooperation with the officers and counsel, after several years of study. This form is intended to be as inclusive as possible and contains every probable contingency that occurred to the members of the committees and others who studied the first draft; it is suggested that each member is entirely at liberty to take all, or a few, or just as many of the numbered clauses in the agreement as he feels to be necessary to cover the relationship with his principal.

AGREEMENT OF AGENCY

THIS AGREEMENT, made this ______ day of __________, 19__ between ________________ of ________________ (if a corporation insert "a corporation,") duly organized under the laws of the State of __________, or other form of business enterprise, or "an individual," herein called the BROKER, WITNESSETH:

WHEREAS, the PRINCIPAL is the manufacturer (or canner or other appropriate designation), among other things, of certain merchandise or products, as follows:

[list of products covered by this agreement]

and desires to secure the services of a sales representative in the territory hereinafter described to promote the sale of said merchandise or products, and

WHEREAS, the BROKER is desirous of securing the exclusive right to sell the said PRINCIPAL'S products or merchandise in the said territory:

NOW, THEREFORE, in consideration of the premises and the covenants and undertakings herein contained,

IT IS MUTUALLY AGREED AS FOLLOWS:

(1) The PRINCIPAL hereby appoints the BROKER, and the BROKER hereby agrees to act for the PRINCIPAL, as its (or his, as the case may be) sole and exclusive SALES REPRESENTATIVE or Agent in the sale of the merchandise or products hereinafter enumerated, subject to the terms, provisions and conditions hereof, within the territory described as follows:

[Here describe the territory to be covered]

(2) All sales made by the BROKER for the account of the PRINCIPAL under this contract of employment shall be made only at such prices, upon such terms, and under such conditions as may be established and designated by the PRINCIPAL from time to time, and no sales, transfers or allowances shall be made except in accordance with said prices, terms and conditions.

(3) All sales made by the BROKER shall be either on firm offers from the PRINCIPAL or subject to the PRINCIPAL'S confirmation, and it is understood that the BROKER will not obligate or commit the PRINCIPAL to the sale or delivery of merchandise or products under this contract of employment without the PRINCIPAL'S authorization.

THE PRINCIPAL AGREES AS FOLLOWS:

(4) The BROKER shall be the sole and exclusive selling representative of the PRINCIPAL in the sale of the merchandise and products herein specified in the described territory, and the PRINCIPAL will either (*a*) make no sales of said merchandise and products in such territory other than through the BROKER, or (*b*) in case of sales made by the PRINCIPAL in such territory other than through the BROKER, or on sales made elsewhere for shipment of the PRINCIPAL'S merchandise or products into the said territory for resale, the PRINCIPAL will pay the BROKER a commission or brokerage on the net selling price of the merchandise and products so sold at the rate specified in the following paragraph:

(5) To pay the BROKER a commission, or brokerage, of ____%, without division, on each and every completed sale made by the BROKER as Selling Representative of the PRINCIPAL, the said percentage rate of commission, or brokerage to be computed on the net selling price of the merchandise or products sold.

(6) Not to enter into any contract of employment with any other sales representative in the territory specified herein during the life of this agreement.

(7) To permit the BROKER, during the life of this agreement, to select and appoint distributors for the handling and merchandising of the PRINCIPAL'S said products throughout the entire territory mentioned as specified, such selection to be subject to the approval of the PRINCIPAL.

(8) To ship the merchandise or products sold by the BROKER as the orders of the BROKER may require and the credit of the distributors will permit, but the PRINCIPAL shall be given notice of a reasonable and sufficient time with respect to the required shipments in order to enable him or it to manufacture or secure the said products and ship the same.

(9) To pay brokerage or commission herein specified not later than on the ____ day of the month following the month in which the merchandise and products were shipped.

(10) Not to pay or grant anything of value as a commission, brokerage or other compensation, or any allowance or discount in lieu thereof, in connection with any sale or purchaser of the merchandise and products herein mentioned, either to the purchase of such merchandise or products or to any agent, representative or other intermediary who or which, in the said purchase and sale transaction, acted in fact for or in

behalf of or is subject to the direct or indirect control of the purchaser of the said merchandise and products.

THE BROKER AGREES AS FOLLOWS:

(11) The annual sales quota for the PRINCIPAL'S merchandise and products covered herein in the territory specified shall be __________.

(12) Not to enter into any agreement or arrangement, during the life of this contract, with any person competing with the PRINCIPAL in the manufacture and sale of the merchandise and products covered herein, for the employment of the BROKER by said person as his or its Selling Representative in the territory specified, except by previous agreement and consent.

(13) To carry out in all respects the PRINCIPAL'S instructions with respect to the sale of the merchandise and products mentioned and to promptly report to the PRINCIPAL any violation of said instructions on the part of any purchasers of the said merchandise and products in the specified territory.

(14) Not to pay or grant any part of the commission or brokerage payable hereunder to any purchaser or to any agent, representative or other intermediary who is acting in fact for or in behalf, or is subject to the direct or indirect control, of any purchaser of the PRINCIPAL'S merchandise and products herein mentioned.

(15) To promptly report all bona fide sales of the merchandise and products of the PRINCIPAL upon consummation.

(16) In selecting distributors within the specified territory and in recommending sales to such distributors, to recommend to the PRINCIPAL only such credit risks as are warranted and to lend complete and regular assistance in effecting prompt and full payments by distributors for all deliveries of merchandise and products sold hereunder.

(17) To thoroughly, energetically and regularly canvass the trade in the specified territory in behalf and in furtherance of the sales of merchandise and products of the said PRINCIPAL.

(18) To diligently and conscientiously respect all territorial lines, and in case of any questions arising over marginal points, to work in friendly cooperation with other Sales Representatives of the PRINCIPAL in other territories with a view to amicably adjusting any said questions or differences.

(19) To assure the PRINCIPAL that no distributor or other purchaser of the PRINCIPAL'S merchandise and products covered herein has any financial or other interest in the business of the BROKER, and if, during the future life of this agreement, any such purchaser secures a financial or other interest in the BROKER'S business, to promptly notify the PRINCIPAL thereof.

(20) To adhere strictly to the PRINCIPAL'S schedule of prices and terms of sale.

SCOPE AND DURATION OF AGREEMENT

(21) If the parties hereto shall comply with all the terms and conditions of this agreement, then, and in that event, the agreement shall continue in full force and effect from year to year, and upon the termination of this contract as hereinafter provided, no claim, or claims of any nature whatsoever, except for commissions due on accepted sales, shall be made by either of the parties hereto, provided that either party may terminate this contract by giving six months' written notice to the other party of his or its desire to terminate the agreement.

SPECIAL PROVISIONS

(Below this headline will be sufficient blank space to incorporate the special provisions between the particular broker and principal that are peculiar to the transaction and perhaps could not be made part of the standard form of contract.)

IN WITNESS WHEREOF, the PRINCIPAL has signed this agreement by its (Title of office) ________, thereunto duly authorized, and has caused its corporate seal to be hereunto affixed, attested by its Secretary, and the BROKER has hereunto set his hand and seal the day and year above written.

(SEAL)

____

ATTEST: BY ____________________

____________________ ____________________

Secretary (Title)

____

Broker.

A One-year Time Clause.—An examination of the duration clause of this model form indicates that brokers expect a sales agreement to continue for at least twelve months with an automatic renewal clause at the expiration of each year and the stipulation that either party may terminate the contract by giving six months' written notice to the other party of his or its intention.

Advantages and Disadvantages of a Time Clause.—Few brokers will insist on a time clause in such an agreement because it is impossible to foretell accurately, particularly with a new and untried product, just how the trade will respond to the selling efforts. When the broker takes on a new account he should be given definite assurance that he will be granted ample time to market the product properly in his territory. Some items may require a long and tedious selling campaign; it would certainly be unfair to the broker to deprive him of an account just when it begins to develop into a profitable one for him, especially if the development work was of an arduous nature. It would appear justifiable to permit such a broker to reap the benefits of his toil and the broker who has the tenacity and fortitude to struggle along with an obstinate account until it becomes a successful and profitable one is deserving of every consideration the producer can give him.

Many brokerage concerns can boast of retaining accounts from the introductory work to the present date; in many instances this represents periods as long as 30 and even 40 years. In fact there is one brokerage concern in America that has had an account for 75 years.

When a producer has a good broker who has proved his sales ability over a number of years, such a man is a distinct asset to the principal and should be so regarded. No principal wants to lose the services of a broker who is doing well with his account, and no broker wishes to relinquish a profitable account, particularly if he was personally responsible for the development of the account to a profitable basis.

Verbal Agreements Are Unsatisfactory.—In view of the character of this type of agreement whereby both parties may mutually benefit by a continuance of the relationship, these agreements are by necessity only matters of form, but no broker should ever be appointed by a principal without some kind of specific agreement covering at least the most important factors, such as extent of territory, brokerage rates, etc. Verbal agreements may be subject to lapses of memory, and unless these agreements are in writing and are clearly stated in respect to the important details, misunderstandings are apt to occur to the possible detriment of the morale of both parties.

It is obvious that, regardless of the existence of an agreement of whatever nature, the principal cannot use force or legal measures to oblige the broker to make sales, and there are very few brokers who would go into court to retain an account that did not prove to possess the anticipated sales potentialities commensurate with the efforts required to sell the product.

Long-term Agreements.—There are a few specialty brokers who may insist on a long-term sales agreement, particularly if the product is one that requires an unusual expenditure of time plus the services of highly trained specialty salesmen to market it. With such introductory work the broker assumes a heavy expense; under these conditions he is justified in protecting the results of his efforts for a long period of time. These term contracts may run from three to as many as five years.

Qualifications for Successful Brokerage Representation. In the important matter of selecting a broker the principal should make every effort to secure one who has had selling experience in a similar or allied line. Many brokers specialize in certain types of food products and perform best when they confine their selling activities within a definite field. It does not seem strange if a broker who has always specialized in canned foods cannot do well with a bulk product. Neither is it strange that a broker who has always featured bulk items may not do well with a highly specialized product. These varying capacities and experiences can be expected in any large field of endeavor, just as one should not expect a good dentist to perform an excellent appendectomy or a good surgeon to fill a decayed tooth. Most brokers are willing to confess their inability to handle a line which is definitely outside the scope of their experience and have no hesitancy in recommending to a principal other brokers experienced along lines more consonant with the product in question.

On the other hand all good brokers have had excellent training in the fundamentals of the art of selling; with such schooling their capabilities are quite varied and versatile, so that many brokers can take on a new account of a nature heretofore unknown to them and make a huge success of it. It can safely be stated that a good intelligent general food broker with a wide experience in the grocery field can successfully market any item in this field if he is given the time and opportunity to exercise his talents and if he receives the proper co-operation from the principal.

Old and New Brokerage Concerns.—The length of time a brokerage firm has been operating is no true guide to its capacity to produce results for principals. Frequently a beginner in the brokerage field will do better with a new account than an old established broker. It may sometimes happen that the well established and successful broker will show little interest in a new account. His accounts may guarantee him a substantial income and he may not be greatly concerned with the difficult task and the extra work of introducing a new product, with its many uncertainties, on the market. He may take on a new account with the best of intentions and then fail to put enough effort back of it to make it a success. Of course dry rot exists in every field of endeavor, but it can be asserted with confidence that the average food brokerage concern, in order to maintain its prestige in a market, will be alert and wide awake to all new selling possibilities, and will never cease to give the best of service not only to old accounts but also to all new principals.

The Broker Can Be of Great Assistance to the Producer in the Development of Sales Plans.—A seller will find that most brokers are pleased to give him the benefit of their experience in appraising the potentialities of a product in their particular marketing center. The broker is usually a highly trained specialist in his field, and he is always conversant with the particular requirements of his wholesale customers. Accordingly he can be of great assistance to the principal in the planning of the sales campaign and in making decisions regarding packaging, prices, labels, etc. Since the broker knows the competitive elements of his market, this information can always be used to great advantage by the principal. An open and frank discussion is essential in order to get the best results from this type of marketing, and such discussions are welcomed by most brokers. The principal need have little fear that any reputable broker will not respect such confidences even if he is not selected for the sales campaign. The relationship between a broker and his principal should always be a confidential one, and both parties should feel free to discuss their mutual problems without restraint.

With an array of expert merchandising talent available in every marketing area in the United States, the principal who uses brokers and who profits from their experiences and knowledge of marketing contingencies should have no difficulty in executing a successful sales campaign with almost any grocery trades product. There are instances on record of brokers changing what was at first an unsuccessful attempt at marketing into a great success when the principals in disgust surrendered their prerogatives and turned the entire problem of planning the sales campaign over to their brokers.

Some Brokers Supply Missionary Salesmen.—Various items require various types of merchandising. The principal may wish to market a highly specialized product that will not be purchased by any jobber until assurance is given that an initial distribution of the product will be effected with specialty sales and promotional work direct with the retailer. The principal may desire to effect a distribution of his product among the retail stores by using missionary salesmen and through such a wide distribution enlist the attention and interest of the wholesal distributors so that they will stock the product to supply the demand created by such an extensive placement program. These types of sales campaigns were described in a previous chapter, but again it must be pointed out that when campaigns of this nature are necessary, a broker should be selected who is adequately equipped to render such a service with a trained sales crew of missionary salesmen employed by him. There are brokers in practically every major market who are able to give this type of service, and these are the ones to be selected by the principal if he has such a program in mind.

If the product is one that does not require specialty work but can be sold to the grocery jobbers and chain-store organizations without this additional sales effort, the principal should then secure the services of a general food broker who makes these contacts regularly. If the product is one that is sold only to the baking trade, a broker should be selected who regularly visits the buyers for the bakery or bakery-supply industry in his territory. If the product can be sold only in bulk, a broker should be selected who has had selling experience with bulk items. There are so many brokers in each marketing center, and these brokers have had such varied sales experiences and have such a variety of services to offer the principal that there should be little difficulty in securing the right one to render the proper service in any market.

Brokers Are Not Always Available in Every Marketing Center.—There are times, however, when the producer may find it impossible to secure a broker in some marketing center because all the brokers there are representing accounts which are competitive to the product in question; the principal, therefore, is unable to obtain brokerage representation in that market. For example, if in a small marketing area such as that served by Clarksburg, W. Va., there are only four brokers operating and each of these has a satisfactory canned-meat account, a fifth producer of canned meats would be unable to find representation in that market. Such conditions are of course rare, but it should be pointed out that occasionally they do exist; this is one of the weaknesses in distributing a product solely through food brokers. One way to meet such a situation is to have the broker who represents the principal in an adjacent or near-by marketing area cover the trade in the area where no other brokerage connections can be made. Open territories can also be covered by salaried sales supervisors, who are frequently employed to contact the various brokers by principals who market their products through a large network of brokers.

The Use of Salaried Sales Supervisors to Contact Brokers.—In many instances principals employ salaried traveling representatives whose duty it is to supervise and augment the sales services of the many brokers in a large territory. These representatives visit all the principal's brokers there at frequent intervals, spending some time in the territory of each and often accompanying them when sales visits are made to the wholesale buyers. These men also serve to keep the broker actively interested in the account and to see that he misses no sales potentialities in the territory. Few good brokers require such supervision, but on the other hand the supervision is unquestionably beneficial to the principal because the frequent contacts between the representative and the various brokers stimulate business and bring the principal closer to his brokers.

Some principals find it beneficial to have a salaried representative in every major market supervising the work of the brokers there. Others, who enjoy a national distribution of their products, will have from two to as many as six salaried representatives to cover all the brokers operating throughout the United States. The fields in which these supervisors or "district sales managers," as they are sometimes called, operate are generally the geographical divisions into which the United States is usually divided, such as the Northeastern states, the Southeastern states, the North Central states, the South Central states, and so on. Each representative may have from ten to fifty brokers in his territorial division according to the nature of the product and the sales volume. These divisional managers are frequently authorized by their employers—the producers—to appoint new brokers and cancel unsatisfactory brokerage connections.

The Salaried Supervisor May Be a Substitute for a Broker in Areas Where No Eligible Brokers Are Available. In territories where no brokers are available, the traveling salaried sales representative or division manager can visit the wholesale buyers in order to sell his employer's products directly to these buyers. Such practice may be continued until a broker capable of handling the product in the area is available.

New brokers are constantly coming into the field, particularly when there are opportunities to secure accounts, so that the use of salaried supervisors for making sales to direct buyers need only be a temporary expedient, since the costs of making sales in this manner are usually much higher than when a broker is employed. These newcomers are often former salesmen of some established brokerage concern who decide to go into business for themselves as brokers in the same territory in which they served their former employers. Again there are frequent dissolutions of brokerage partnerships as a result of which two brokerage concerns will function in the field formerly occupied by one. In such ways every marketing area experiences changes, fluctuations, substitutions, and the frequent debuts of new talent, in the evolution of trade necessities and requirements.

Changing Brokerage Representation.—If, after a broker has been selected and after he has had ample opportunity to display his ability, he cannot make any progress with the sales of the product, the principal should lose no time in establishing a new brokerage connection. Little difficulty will be experienced in asking a broker to relinquish an account when it is obvious that the account is not a profitable one for him to handle. However, no new brokerage relationship should be entered into until the subrogated broker has been duly informed in writing that the sales agreement will be canceled on a specified date. Only after the expiration of such time will the principal be free to appoint a successor in the territory.

Number of Brokers Required for a National Sales Coverage.—There are many opinions as to how many brokers would be required to give a full national sales coverage to a principal who enjoys or aims at such an objective. The author has broken down the entire country into 105 brokerage sales territories, each large enough in size and population to give each broker full scope for ample sales possibilities. This distribution of territory of course depends greatly on the nature of the product to be sold and its potentialities. Assuming, however, that 105 trading areas are sufficient to give a full national brokerage coverage and that the average broker's office will offer the services of at least three salesmen, the principal will have no less than 300 active salesmen available for the selling campaign, and these men will be ready to start at any given moment to place the product before every important buyer in the land.

No other method of selling can offer such flexibility as is offered by the food brokers. A well selected force of food brokers operating in every market will respond to action just as a pipe organ responds to the pressing of the keys. The country is large and there are diverse climatic conditions that may play an important part in the merchandising of some commodities; with the employment of food brokers in every marketing center pressure can be raised or lowered at the will of the principal to bring into action instantaneously the proper degree of selling effort to meet any fortuitous condition, no matter where it may be. No other selling methods could be used which would bring into operation simultaneously so great a trained army of experienced salesmen, each familiar with his buying trade, at practically no cost to the principal except a nominal commission on sales actually made.

CHAPTER 4

BROKERAGE RATES AND PAYMENTS

Brokerages Are Payable on All Sales.—The food broker, as has been indicated, receives a commission or brokerage on the actual sales he makes. This payment is made to the broker by the principal or seller whom the broker represents and whose merchandise he sells. He receives no other compensation for his time and his selling efforts from the principal. Regardless of the time, effort, and expense used by the broker to effect the sale of a product, no compensation is paid to him unless, as a result of such efforts, a sale is consummated and an invoice rendered to the buyer by the seller. It is, however, necessary to qualify this, because the interpretation of a broker's commission payment which is accepted by the National Food Brokers Association is that the broker's compensation is earned when he completes a sale, *i.e.*, when he gets the buyer and the seller to agree upon price, terms, quantity, etc., and compensation is made on this basis whether or not an invoice is made and paid or before the invoice has been rendered.

In order not to have a confusing terminology in this chapter the term "principal" will be used to denote the party who pays the broker, whether he be producer, manufacturer, processor, or seller, and the term "food broker" will be used to denote the one who receives the brokerage payment as a compensation for his service.

Direct and Indirect Sales.—The commissions payable to the broker are based on all sales of the product, whether direct or indirect, made in the territory assigned to the broker by the principal. A direct sale, from the viewpoint of the broker, is a sale made by his personal efforts or through the instrumentality of his brokerage office. An indirect sale is one which was not secured in person by the broker or by his office, but covers orders for merchandise sent directly to the principal by a buyer without passing through the hands of the appropriate broker. For example, if a broker is assigned the entire state of Maine, in which he is to be the sole sales representative of a principal who produces the "XYZ Baking Powder," this broker will receive a commission from the producers of that product on all the sales of this brand made in the entire state of Maine during the life of their particular agreement. Not only will he receive a brokerage on those orders for the baking powder which he personally secures from the buyers and submits to the producers for delivery, invoicing, and collection, but he will also be entitled to brokerage at the same rate on all orders which the producers of the baking powder may receive from any buyer of the item in the entire state, even if such orders are mailed by the buyer directly to the producer without passing through the office of the broker for the "XYZ" brand in that territory.

The Broker Has Sole Selling Rights in His Territory.—When a food broker has a territory assigned to him, he has the sole selling rights or franchise for the product in that entire territory, and he is duly entitled, accordingly, to the full brokerage on every package, pound, or case of the product sold by the principal therein under the proper assumption that the continuous solicitation and sales effort by the broker creates a demand which makes possible all orders, direct and indirect.

Minimum Fees Are Sometimes Requested by Brokers.—There are some few brokers who specialize in what are known to the grocery trade as "food specialties," such as trade-marked or branded condiments, canned foods of unusual quality, or the like. These brokers usually operate in highly congested population centers where there are many potential buyers for items of this nature. Such food specialties often require an unusual amount of selling effort and time to secure an initial distribution to the trade, and in such instances some brokerage concerns may demand a guaranteed minimum fee from the principal because of the expense incurred in making these extra sales efforts on behalf of a product in which he possesses no proprietary rights. The minimum fee will not be based on the sales actually made by the broker during the specified period of introductory work, but will be in terms of a flat sum which may range from $100.00 to as much as $500.00 per month, depending on the work required. A brokerage rate for the product is, of course, established by the principal, but if the brokerage earned on actual sales each month does not reach the minimum guaranteed payment the principal pays the difference to the broker.

If the broker were to receive only the usual and nominal brokerage on the sales actually made to the wholesale buyers during such an introductory campaign, the broker's expenses would far exceed his earnings, and there could be little justification in expecting him to finance the selling campaign for a principal when such extraordinary sales efforts are required.

This extra compensation to the broker can and does take various forms. It may be in terms of a flat sum, as has been described, or it may be in the form of an extra brokerage, as, for example, if a commodity to be introduced to the trade with intensive selling pressure carries normally a 5 per cent rate of brokerage, this may be increased to 7½ per cent or as much as 15 per cent during the opening campaign. Likewise, if the brokerage rate is 5 cents per case normally, it could be increased to perhaps 10 cents during the introductory sales period. When this period is over and the broker resumes his routine contacts with the buyers, the special brokerage payment is discontinued and the normal rate becomes effective.

The Broker Assumes the Marketing Risks.—The average brokerage paid on most products is very nominal and seldom adequately compensates the food broker for the time and effort he must use in placing a new product on the market. It is only after an account becomes established and when repeat orders reach a substantial volume that the broker can reap the benefit of his labors and make a profit for himself with the account. Each new account is a gamble for the broker who accepts it.

When a principal elects to market his products through the selling services of a food broker, it is actually the latter who assumes the marketing costs and risks. If the principal were to use salaried salesmen for his campaign he would be obliged to pay their salaries and traveling expenses whether they made sales or not. Under such a system the principal finances the selling costs and assumes the marketing risks, which may represent a substantial outlay before a sales volume sufficient to give a profit margin over and above these expenses is created. The selling costs under this method will bear no definite relationship to the sales volume they create; if they are in excess of the profits, the principal may be obliged to retire from business with severe financial losses after having wasted his capital resources in a futile marketing campaign.

On the other hand, when the products are sold through food brokers, the principal is obliged to pay only a fixed brokerage on the sales actually made by them or through them, and the selling costs are accordingly limited to an exact percentage of the sales volume. The principal makes no investment of his capital funds in the sales campaign and he runs no risks of paying out more than he takes in through sales. All marketing is accompanied with risk, but the food broker assumes this risk and so relieves the principal of this important responsibility. It is because of this shifting of marketing risks from the principal to the broker that the matter of proper compensation with adequate brokerage rates becomes so important.

Why Brokerage Rates Are Quite Nominal.—The broker is able to operate successfully on a relatively small commission because he represents a number of principals, each of whom contributes to his income; it is this division of selling expenses among a number of principals that makes it possible to market food and grocery products through food brokers more cheaply than through any other selling medium. It is this same division that enables the broker, representing a number of principals, to assume the marketing risks incidental with a new and additional product which he agrees to accept for his territory.

Marketing through food brokers, accordingly, may be considered as a cooperative effort on the part of a number of different principals to reduce the costs of selling by combining their joint sales activities in the person of one broker.

Because of these factors, the broker has unquestionably served and is continuing to serve the best interests of the consuming public by the marketing economies effected through his selling services, and every means should be taken by those who are interested in the efficient distribution of foodstuffs for the public weal to protect his interests against the abuses which have gradually crept into the industry and which may ultimately have a detrimental effect on the character of the efficient selling services rendered by the food brokers of America.

Brokerage Rates Based on Percentage of Selling Price.—Brokerage rates are based either on a certain definite percentage of the wholesale selling price or on a specific unit of the product. When based on the selling price they will range from 2 per cent to as much as 10 per cent, depending on the character of the product. When the rates are in terms of percentages the brokerage is always computed on the *net* price paid by the wholesale buyer with the exception of the cash discount usually given by the principal.

If the product is sold on a trade discount basis, the brokerage is computed on the *net* price paid by the buyer after the trade discount has been deducted. For instance, if the principal quotes a price of $12.00 per dozen for his product with a standard trade discount of 10 per cent, the brokerage will be computed on the net price paid by the buyer, which in this case will be $10.80 per dozen; if the rate of brokerage is 5 per cent the broker will receive a commission of 54 cents per dozen on the sale. The broker will be aware, of course, of such standard trade discounts when they exist, and when he quotes a buyer he will employ these discounts to arrive at the buyer's net cost; such discounts generally appear on the invoice rendered the buyer, and the broker takes them into consideration in computing his actual sales volume.

When the brokerage is on a percentage basis the payments will increase as prices advance and decrease as prices decline. If, in the example herein cited, the selling price declines to $9.00 net per dozen, the brokerage will drop to 45 cents per dozen; if it increases to $15.00 net per dozen, the brokerage is raised to 75 cents. In any case the rate of brokerage bears a constant relationship to the selling price, regardless of the variations in the actual brokerage payments.

Brokerage Rates Based on Units.—When the brokerage is paid on units, based at so much per case, per pound, per bag, or per barrel, it remains constant and fixed per unit employed and does not vary with the price of the commodity. For example, the brokerage on canned milk is 5 cents per case of 48 tall cans or 96 so-called baby cans, regardless of the wholesale selling price per case. No matter how high or how low the price of canned milk will fluctuate from time to time, the brokerage rate remains fixed at the 5-cent rate. When the brokerage rate is based on units, the percentage selling cost based on the selling price will increase as prices for the commodity decline and decrease as prices advance. If a case of milk sells for $2.00 at wholesale and the brokerage is 5 cents a case, the percentage selling cost will be 2½ per cent. If the price declines to $1.75 per case the percentage selling cost is then approximately 2.86 per cent. When the price advances to $2.50 per case the selling cost, at the same 5 cents per case, is then 2 per cent.

Both methods of payment for brokerage are used by principals in America. On fast-moving items the brokerage is generally based on units. On canned vegetables, fruits, specialties, etc., the brokerage is usually established on a percentage basis.

With Food Brokers Selling Costs Are Known in Advance of the Sales Operations.—The payment of brokerage, whether it be on a unit basis or on a percentage basis, is highly advantageous to the principal because he can know in advance exactly what it will cost him to market his products. The brokerage payments will constitute his main selling expense except the additional sums he will be obliged to pay for postage, telegrams, telephone calls, and some possible supervision by the principal himself or his sales manager, if he has one, for occasional visits to the various brokers. These necessary office and supervisory expenses would, however, also be incurred by the principal if he employed salaried salesmen instead of food brokers; in the former method the main selling costs are always uncertain and cannot be accurately predetermined, because salaries and traveling expenses go on, as has been pointed out, whether sales are made or not, whereas in marketing through food brokers these costs can be determined accurately in advance. This materially reduces the risks of distribution costs for the benefit of the principal as well as for the consuming public. Too much importance cannot be attached to this factor of knowing the selling costs in advance, because they constitute the greatest hazard in the operation of a business enterprise.

Brokerage Rates Must Be Computed on Prices Broker Quotes to Buyer.—When the price quoted to the buyer is on a delivered basis, the brokerage must be computed on the net delivered price. Such a price includes freight and other delivery charges, which cannot be deducted by the principal from the net amount of the invoice rendered the buyer when the brokerage is computed for such a sale. The brokerage must be computed on the selling price, because it is expected that the principal will have taken the transportation charges into consideration as a legitimate part of the production costs when he authorizes the broker to name a delivered price to the buyer. On the other hand, if the product is quoted on a f.o.b. plant or factory basis by which the buyer pays the transportation charges from the factory to the buyer's warehouse, the brokerage will then be computed on the net selling price at the plant, which the broker was authorized to use in making the sale.

Unfair Deductions from Brokerage Payments.—There are a few principals who resort to every possible subterfuge in order to pay as little as possible to the broker who made the sale. In computing brokerage some may go so far as to deduct transportation charges when the sale was authorized by them on a delivered basis; some even deduct the cash discount from the invoice before computing brokerage. Others will deduct the cost of samples which they authorized the broker to give to the buyer for selling purposes; others will penalize the broker for spoiled merchandise. To go into full detail would require a chapter in itself. There are some exhibits on file wherein unfair and unwarranted deductions made by unscrupulous principals more than ate up the legitimate and very nominal brokerage of 2½ per cent on sales of canned vegetables, leaving the broker actually in debt to the producer.

Some defense has been made in the case of cash-discount deductions, but as far as these are concerned they are as much a part of the principal's cost of doing business as is interest on borrowed funds, insurance, and taxes, as well as the tangible cost of raw materials, fuel, labor, etc. If the item of cash discount is deducted before the broker's commission is computed, the principal is actually paying himself that part of the compensation, because that item has been or should have been anticipated by the principal and added to the cost of production.

Items such as cash discounts, label allowances, allowances for spoiled goods, and freights on delivered prices should properly be put into the production cost sheet by the principal. Deductions for such considerations are absolutely indefensible and should no more be taken from the broker's compensation than they could be taken from a salaried salesman's remuneration.

Brokers Are Not Responsible for Credit Losses.—Under no circumstances should a principal attempt to make a broker forfeit a brokerage paid to him on a sale that later proved to be uncollectible. The broker's part in his selling engagement is completely fulfilled when he delivers a bona fide order to his principal. The principal must decide whether or not he will accept the credit risk; he is not obliged to accept an order from a broker if there are any reasons for doubting the financial responsibility of the buyer. The principal has the right to return such an order to the broker and decline acceptance. If, however, the order is accepted by the principal, shipment follows, and an invoice is rendered to the buyer, then the principal must pay the broker his stipulated brokerage in full, regardless of what may develop later in regard to the payment of the invoice, whether it be a total loss or subjected to collection costs.

Unauthorized Deductions from Invoices by Buyers.—Some buyers occasionally take unauthorized deductions, generally of a petty nature, when paying an invoice. If the principal accepts the buyer's check after such deductions have been made, without question and as payment in full for the invoice, the principal cannot pass such differences on to the broker and deduct them from the brokerage due him on the sale. If the deductions were not warranted and had not been promised to the buyer by the broker, the principal should return the check for the necessary corrections. If the broker, on the other hand, authorizes a buyer to take unwarranted deductions from an invoice, such deductions can be properly charged to the broker and deducted from his payments. Few brokers would be guilty of such a practice, and when it occurs the principal has every justification for calling the broker to strict account.

The Broker Is Legally Entitled to His Commission Regardless of the Delivery of Merchandise.—Morally and legally the food broker is entitled to his commission on each sale made, regardless of whether delivery is made in full, in part, or not at all. The law recognizes the sale as having been made when the broker has found a seller ready, able, and willing to deliver certain merchandise at an understood price, and a buyer who agrees to take the merchandise according to the understood price, terms, and conditions and is able to do so. The only exceptions to this rule are (1) in the event that the broker is party to an agreement which makes delivery unnecessary, and then only in the event that as such party, the broker specifically waives his right to the commission, and (2) in the event that it is shown and proved that the broker practiced fraud in bringing the seller and the buyer to a meeting of minds which was the sale.

The basis for the compensation of the broker being understood, it is reasonable to expect that he shall receive compensation for each sale, which would mean compensation for the original sale in the event that the merchandise is rejected by the buyer and the rejection is accepted by the principal or adjudicated as just by arbitration, and compensation for the additional service rendered by the broker when he resells the rejected merchandise. If, however, a buyer requests the privilege of returning merchandise for credit to a principal because such merchandise proves to be unsalable, not because of inferior quality, but because there is no genuine consumer acceptance for the merchandise in the buyer's territory, and both the broker and the principal agree to such return, the principal will be fully justified in charging back to the broker the commission paid on the original sale. A broker will be satisfied to lose his commission on such a transaction if he can retain the good will of the buyer for subsequent sales of merchandise from the same principal.

Brokerage Terms Must Be Clearly Understood by Both Broker and Principal.—In order to maintain a harmonious relationship, no principal should appoint a broker unless all the terms and conditions in complete detail are thoroughly understood and mutually accepted. The responsibility for misunderstandings rests on the broker just as frequently as on the principal. Many brokers, on accepting an account, fail to insist that the principal state specifically and in full the exact basis to be used in computing the brokerage payments. This important matter, which can be a source of much trouble and perhaps ill feeling, should always be in writing and never by word of mouth. When they accept an account, brokers should insist that the principal furnish them with a written statement of brokerage terms describing fully how, under what specific conditions, and when compensation is to be made, so that there can be few grounds for dissension at a later date.

No attempt should ever be made by the principal to evade the payment of the just and stipulated brokerage rates or to make unwarranted deductions from them. This practice always leaves a bad impression in the mind of the broker and develops a personal distrust of the integrity and good faith of the principal which does not add to the broker's selling enthusiasm.

Remittances to Brokers.—Principals should always be prompt and unfailing in making payments, because the broker has his fixed charges, such as office rent, personnel salaries, telephone and telegraph bills, etc., to meet, and to provide for them he must have promptly and regularly the brokerage he has earned. There can seldom be reasons for not making prompt remittances to brokers, because in most instances the principal will have received payment from the buyer long before the periodic payment to the broker is due.

It is the usual practice to pay brokerage at least once each month. If the sales volume with any particular broker is unusually large, the payments may be made as frequently as once a week. When payments are made on a weekly or monthly basis, a simple method commonly used is for the principal to keep a separate file for each broker's territory. In these files are placed all the sales records for each broker for the shipments made in his territory during the period. At the end of the week or month these records are used to prepare a brokerage statement for each broker. The shipment records are then removed from the file, which is then ready for the next month's records. When these files are cleared each time there are no chances for duplications in the brokerage payments.

The weekly or monthly statements of brokerage due each broker should be complete in detail and should contain at least the following data concerning each invoiced shipment made during the period into the broker's territory:

1. Date of invoice rendered by the principal to the buyer.
2. Principal's invoice number.
3. Name and address of buyer.
4. Net amount of invoice on which brokerage is computed.
5. Rate of brokerage to be paid on the various items appearing on the invoice, particularly if different rates are paid for different products.
6. Computation of the brokerage due the broker on each total invoice.

Accompanying this statement will be a check made payable to the broker for the brokerage due him on the total summarized statement.

Carbon Copies of Invoices Serve As Good Record of Sales.—Accompanying the brokerage statement there should also be carbon copies of all the original invoices listed. Most principals employ multiple copy invoices for billing purposes. It is usual to prepare, in addition to the original, at least two copies of each invoice; the original is sent to the buyer, one copy is retained by the principal for recording purposes on his account books, and the second copy is sent to the broker. Some principals send carbon copies of invoices to brokers at the same time the original is sent to the buyer, so that the former will have prompt notification that the shipment has been made and the invoice issued to the buyer. Other principals send all the copies of invoices in one envelope at the end of each week to each broker. If the brokerage settlements are made on a weekly basis, the brokerage statement for the period and the remittance check accompany the invoice copies. If, as is most usual, brokerage settlements are made at the end of the month, copies of all the invoices covering shipments made into the broker's territory should be sent to the broker at least once a week and not held up until the end of the month, because the invoice copy is the only record the broker has to confirm the shipments of his orders and he should not be obliged to wait four weeks to obtain this important information, which he requires promptly as a guide in his contacts with his buyers.

The invoice copies are also of great value to the broker because they enable him to keep a check on the promptness with which his orders are being filled and because they show all the sales, direct and indirect, that are being made in his territory. Most brokers keep a close record of all the sales they have made for each principal's account, and the invoice copies sent regularly by the principal to the broker enable him to confirm his own records. With such sales statistics the broker is able to appraise the results of his selling efforts at any time and so determine the progress he is making with each account.

Form for a Simple Brokerage Statement.—A simple form of brokerage statement appears in Exhibit 3. This particular form is divided into six classifications to cover all the invoices sent into a broker's territory during the month for six kinds of products, on each of which a slightly different percentage brokerage rate is used. The total amount of each invoice reported on the statement appears in the

STATEMENT OF COMMISSION DUE

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FOR THE MONTH ENDING________________193__

DATE OF INVOICE	PURCHASER	INV. NO.	BEEFEX	IMPORTED CORNED BEEF 1ST. GRADE 12/6'S	IMPORTED CORNED BEEF 1ST. GRADE 24/12'S	IMPORTED CORNED BEEF 2ND. GRADE 24/12'S	PURE DOMESTIC CANNED MEATS	DOMESTICS WITH CEREALS	TOTAL
	TOTALS								
	RATES OF COMMISSION		$7\frac{1}{2}$%	5%	5%	3%	5%	$2\frac{1}{2}$%	
	COMMISSION								

EXHIBIT 3.—A simple form of brokerage statement used for products which carry varying brokerage rates.

last right-hand column and the sales totals for each of the six products appear under each classification at the bottom of the page, where space is provided for the insertion of the brokerage rate for each product and the brokerage due in dollars and cents for each product. The total brokerage on all sales for the entire month appears in the last column. If there are no classifications into various products and the product to be sold carries a constant brokerage rate, this form can be further simplified by reducing the number of columns to as few as four, which would severally show the date of invoice, the name and address of the purchaser, the invoice number, and the net amount of the invoice on which the brokerage is computed.

Brokerage Payments on Future Contracts.—On many items the broker will book what are known as "future orders or contracts" from his buyers. These are orders for merchandise to be manufactured, processed, canned, or otherwise prepared for shipment to the buyer at some future date from growing crops, or crops to be planted, or for merchandise which will be packed or processed at a later time. Future contracts are placed by buyers because they want to be assured of obtaining certain merchandise after it has been packed, either because they anticipate a possible shortage in the supply or because they desire a price protection on a future delivery of the merchandise. Future contracts are of value to the producer because they enable him to anticipate in advance the possible requirements for his product and he can plan accordingly.

The broker receives no commission on such future contracts until shipments are made by the producer against these orders. It is necessary for him to be informed by the principal when shipments against these future orders are made, because such shipments are frequently in partial fulfillment of the total contract and the broker must know at all times what balances are due his buyers on unfilled and unexpired contracts. As the shipments are made and the invoices for such shipments rendered to the buyer, the broker will then be entitled to his brokerage for each invoicing. For example, a buyer may give a broker an order for 10,000 cases of canned corn to be delivered within four months after the date of the sales contract. Two months after the date of the contract the buyer desires delivery of 4,000 cases. This quantity is then shipped by the producer to the buyer and an invoice for 4,000 cases is issued. The broker then receives his commission on that part of the sale. Thirty days later the buyer may desire shipment of another 3,000 cases. Again shipment is made by the producer and again the broker is paid his commission, this time for 3,000 cases. Before the expiration date of this contract the buyer will be obliged to take delivery of any balances that remain unshipped; under the terms of the contract here cited the remaining 3,000 cases would be shipped to the buyer on the last day of the contract and the broker receives his brokerage on this final shipment.

Brokerage Statements Prepared by the Broker for His Principal.—Some principals throw the entire burden and responsibility of computing earned brokerage on the shoulders of their brokers. They expect the broker to keep his own record of all the sales he makes for the principal's account, and at the end of each month he is expected to send his invoice to the principal for the amount he has earned during the month. Under such a method the broker has no means of finding out if direct sales were made by the principal into the broker's territory without his knowledge, and unless the broker thoroughly investigates the purchases made each month by every buyer he cannot tell with certainty whether or not he is receiving the full brokerage rightly due him.

It seems unreasonable for a principal to expect the broker to perform a duty that rightly belongs to the vendor. The principal always renders the invoices to all buyers of his merchandise and with the responsibility of preparing them should go the obligation of issuing the necessary brokerage statements on the sales covered by such invoices.

Rates of Brokerage.—The usual rates of brokerage paid for selling trade-marked or branded grocery items range from 2½ to 5 per cent. On canned fruits and vegetables the brokerage will vary from 2½ to 4 per cent. These rates may also vary for different items and grades in any one large line. On canned fruits, for instance, a higher rate is sometimes paid on the "fancy" or best grades than on the "extra standard" or "standard" grades. Specialties always carry a higher rate of brokerage than staple items. Few food or grocery items pay in excess of 5 per cent, but on a few highly specialized items, such as patented soaps, razor blades, chewing gum, confections, and the like, a brokerage as high as 10 per cent is not unusual. Recently a large manufacturer of cellulose products decided to market a synthetic sponge through grocery channels, and the food brokers selected to sell it were paid a brokerage of 10 per cent.

Field brokers, as they are described in Chapter 2, generally receive a brokerage of 5 per cent from the packers. They usually retain one-half of this brokerage for themselves and pay the other half to their associates or subbrokers.

Many Present Brokerage Rates Are Too Low.—It is a common complaint among food brokers that some of the products they sell, especially the staple items, carry too low a brokerage rate, at least under present conditions. Many rates now in use were established prior to 1929 when it was customary for grocery jobbers to order carload lots of some staples. Since the economic depression of 1930 there has been a great change in the buying habits of the American wholesale grocer. Large buyers who formerly ordered most of their purchases in carload lots are now ordering in lots of several hundred or fewer cases. The reasons for the smaller orders are many, such as market uncertainties, fluctuating prices, lower consumer purchasing power, lack of adequate warehouse space due to the constantly increasing number of new products coming into the market, lower investments in inventories, and a desire to keep the business liquid. These conditions are the result of a changing economic order and are not the fault of the food broker; but when orders are placed in small units a broker is obliged to make many visits to a buyer in order to sell him the equivalent of a carload. These extra calls take the broker's time and money, and the compensation he receives is in most cases insufficient to pay for the extra labor involved. Further, the principals are, in some cases, asking the brokers to accept additional responsibilities in the way of directing specialty sales crews, investigating local marketing conditions, making reports of competitive factors, looking after local advertising and sampling, and directing other sales activities for the principal's interest in the broker's territory. All service costs money; when the broker performs these extra services to principals without extra compensation they are benefiting at the broker's expense.

Brokerage Rates Must Be Increased if the Broker's Efficiency Is to Be Preserved.—With these changing buying habits, which so greatly affect the broker's earnings, adjustments in brokerage rates on many items will have to be made if this method of selling is to be preserved. Many principals are today benefiting from the selling efforts of a national corps of brokerage representatives with a cost that is ridiculously low considering the vast amount of selling effort given to these principals in every marketing center in America. If this service no longer existed, if the food brokers of America suddenly decided to stop selling, and if their services were to be replaced with traveling or resident salaried salesmen each working for just one producer, the total selling cost of all food and grocery products would unquestionably be many times greater than it now is, and this increase would work to the disadvantage not only of the producers but also of the great consuming public. Farsighted principals will see to it that the broker receives adequate compensation since he is so important a factor in keeping the cost of making sales at a modest level.

For the nominal brokerage of 5 per cent or less, no principal can expect a broker to do specialty or missionary work among the retail stores. In fact it should be definitely understood that calling on the retail trade is not one of his functions. His main obligation is to offer the principal's products only to wholesale buyers; if the principal wishes to use missionary or specialty work to secure a distribution of his products among the retail stores, he should be obliged to pay the broker an extra fee for such work. When the broker supplies the missionary salesmen he usually charges the principal only their actual cost, which includes their salaries and traveling expenses. The broker seldom, if ever, attempts to make a profit for himself when he supplies these extra services.

Brokerage Rates on New Products for Which No Precedents Are Established.—The producer of a new grocery item for which there are few or no precedents will determine the brokerage to be paid on three considerations: (1) How much brokerage will the gross profits on this item permit for the selling service? (2) Will this rate of brokerage be sufficient to enlist the interest of the broker and will it be commensurate with the selling effort he must expend in order to market the product properly? (3) Will there be sufficient repeat business on the item to sustain the broker's interest and assure him a reasonable income for the effort employed to maintain the distribution?

The matter of establishing a brokerage rate can also be determined to a degree by investigating the brokerage paid by producers of somewhat similar items. It is not difficult for a principal to ascertain what rates are paid by competitors in the same lines, and most brokers will be helpful in assisting a principal in the establishment of a fair one.

If there are no precedents of any kind whatsoever to follow it would be well for the producer of a new commodity to agree with his broker on a tentative rate which appears to be fair and sufficient to cover the initial work of marketing the product with the wholesale buyers. After the brokers have had an opportunity to test its sales potentialities and its consumer acceptance, both the principal and the brokers will be in a better position to determine whether any readjustments in the commission rate are necessary to give the broker the fair return he deserves and to maintain a low selling cost for the principal.

Lower Than Standard Brokerage Rates under Exceptional Circumstances.—Sometimes it may help the sales of a product, particularly under the stress of extreme and unusual competitive conditions, if the broker agrees with the principal to work on a less-than-standard brokerage rate, provided, of course, the principal is willing to operate on a relatively lower profit basis. This unusual procedure may sometimes be resorted to as a temporary expedient to maintain sales volume under very uncommon circumstances. This is a delicate subject with most food brokers and would not be mentioned in this book but for the fact that circumstances sometimes create situations that are very difficult to surmount, particularly in a field where there are constant changes in operation, many of an unexpected and even surprising nature. It may happen that competitive conditions may become so severe that unless a compromise on selling costs is made the principal may lose business and of course the broker will suffer likewise.

If the producer is willing to make a lower price to meet such unusual competition and so reduce his net profits, the broker can co-operate by accepting a lower brokerage rate during the emergency period. Both the broker and the principal stand to gain by such adjustments—the broker because some income from the account is better than none at all, and the principal because a low profit on a large movement of merchandise is better than a large inventory that may depreciate in value. When the emergency is over and competitive conditions return to normal, it is of course to be expected that a full brokerage will be paid. This example of the close co-operation that can exist between a broker and his principal is given to show the extreme flexibility of marketing through food brokers, a flexibility which can face almost any contingency and which can only be established between two independent factors—the principal and his broker—both working independently for the common good and not bound by rigidities that make such close co-operation impossible.

The "Cut-price" Broker.—Some brokers are unable to make sales at the principal's published list prices, and may be constantly requesting lower selling quotations. It requires no great ability to make sales when the prices made to a buyer are considerably lower than those asked by competitors for the same class of merchandise. A lower price requires less selling effort on the part of the broker. In many cases this is a tacit acknowledgment on his part that he can make sales only when his prices are lower than other quotations. Brokers who constantly ask the principal for lower prices, and such brokers do exist, are to be regarded with suspicion. There are many buyers who do not hesitate to encourage such a practice. Sometimes, however, this request may be justifiable and the principal may accede to the broker's wishes, particularly if he has a good record of past sales accomplishments. It is difficult for the principal to determine what is deserved and what is not, especially since he is not always on the scene of action to judge conditions for himself. The broker invariably expects to be paid the same brokerage rate even if he does make a sale at lower than the published list prices of the principal; the latter must take this into consideration when he permits his brokers to sell at less than the established prices.

Payment of Earned Brokerage to a Discharged Broker.—When brokerage arrangements are canceled the replaced broker should receive the full commission due him on any orders which he may have booked during the term he represented the principal, but which were not delivered until after the cancellation of their agreement. A newly appointed broker is never entitled to any brokerage on sales made by his predecessor, even if the deliveries of such sales were not made until after the new broker received his appointment.

Lost-account Tragedies.—The greatest tragedy in the career of a food broker is the loss of an account for the success of which he was primarily responsible. A broker may take on an account when it is entirely new to the buyers of his territory; he may give years of time and effort to get the product firmly established on his market. These efforts may meet with unusual success and in time the account may reward him with a substantial income. At this point the principal may come to the conclusion that the broker is earning too much with the account; he loses sight of the fact that his percentage of sales cost has not been increased and that he is paying the successful broker no more per unit of sale than he pays other less successful brokers in other marketing areas. He may, regardless of these considerations, succumb to the temptation to replace the successful broker with a salaried salesman under the impression that by such a substitution he may reduce the selling costs in this particular broker's territory.

It is, of course, always advisable and necessary in any business activity to reduce the costs of making sales to an absolute minimum; on the other hand, it may be disastrously detrimental, and an exercise of what is unquestionably a breach of trust, to deprive a broker of an account which he has developed into a very successful one not only for himself but for his principal, particularly since the successful broker receives relatively no more than he actually earns through his sales.

It is always hazardous to shift the responsibility of maintaining a large volume of sales from the one responsible for such success to a less experienced salesman. The broker is undeniably in business to make a profit for himself, and most frequently his successes are of his own creation. Generally they are the result of years of effort with a risk of his time and money. The broker takes a greater personal risk in the initial marketing of the product than the principal, and yet he is gambling on the future possibilities of a product in which he has no proprietary rights. These profitable accounts are known to brokers as "bread-and-butter" accounts, and the loss of one of them is a serious matter.

It is perhaps the constant fear of losing a profitable "bread-and-butter" account that encourages the average broker to take on more accounts than he should handle; this fear has unquestionably been a detriment to the efficient services rendered the grocery trade by the food broker. Furthermore, the penalization of the food broker for his successes is a direct violation of what are generally known as the axioms of American business. This so-called "American way" teaches that success should be measured in terms of monetary rewards, that the more money one earns the more successful he has been. Many food brokers have had experiences to the contrary, and their history in America is full of "lost-account" tragedies.

Sometimes it happens that the principal may temporarily reduce the cost of selling in a territory by replacing the broker with a salaried salesman, but often this economy has a short life. If the success of a salaried man is short-lived it is generally because every buyer in the territory will sympathize with the broker who lost the account; if the broker secures a new competitive line many buyers will favor him by purchasing the new line. This may result in the new line replacing the one which the broker lost, particularly if the jobbers in the territory aid the broker by placing additional selling emphasis on it.

Some may regard this as additional evidence that the buyer and the broker have a closer relationship than is desirable to preserve the best interests of the principal; it may also lead to the conclusion that the broker favors the buyer at the expense of the seller—one of the favorite criticisms against the brokerage method of marketing merchandise. It has been pointed out elsewhere that the broker cannot help but have a close relationship with his buyers. If he did not possess their confidence he could not be a successful broker. It is because of such confidence that a broker can present a new product to the buyer and quickly enlist his interest in introductory sales efforts. During the introductory campaign the principal will, no doubt, congratulate himself on having the services of a broker who does possess the buyer's good will which is instrumental in securing a rapid distribution for this principal of his merchandise throughout the broker's territory. Later, he may entirely forget his good fortune after the broker has built up a substantial sale of the merchandise.

The broker may have been visiting the buyers in his territory for years, and many genuine friendships may have sprung up as a result of these frequent contacts. Under such circumstances it would be only human for the buyer to show a genuine sympathy for the broker who loses a profitable account. The buyer can no doubt remember when such an account was new to the trade and how hard the broker worked to get it established. He will have associated the broker with the product, so that when he thinks of the one he will naturally think of the other. These mental processes of association cannot be stifled, because after all both the buyer and the broker are human beings and subject to the same impulses, sympathies, friendships, hatreds, and other characteristics of man's emotional nature. We cannot create a buyer who is only an automaton; neither would we care to have brokers who are machines and devoid of all human instincts. In all walks of life we, as human beings, have human idiosyncrasies to deal with. If the buyer, sympathizing with the broker, uses his efforts to help the broker market a new product to replace the one he lost, this buyer is doing no more than he did when he purchased the first product from the same broker and helped to launch it on the road to success. When a principal appoints a broker he always inherits the good will established by the broker with his buyers.

If the principal suffers, as has happened on numerous occasions, when he takes an account away from a successful broker, that is no indictment of the broker. He, as well as the principal, must live and he requires an income to maintain his establishment; consequently, he must immediately replace a lost account with another, if he can, and if he has had broad experience with a particular type of product he will naturally seek a line or product of similar character.

Adjusted Brokerage Rates to Retain the Broker's Services.—It is obvious that the successful producer cannot be guided by sentiment, but must have as his constant objective the lowest possible selling costs. When the sales of his particular product reach a very large volume and the broker is earning a remuneration considered abnormal by the principal regardless of the fact (and this will bear repeating again at this point) that the selling costs per unit have not been relatively increased, it is the consensus of opinion that instead of replacing the successful broker with a salaried salesman, the principal should frankly discuss the subject of selling costs with the broker and come to some new arrangement which would still give the broker the reward he has well earned and yet reduce the selling costs to a satisfactory point. Such adjustments in compensation could take the form of a lower brokerage rate after a certain volume in sales has been reached or of a contribution of additional selling or advertising services on the part of the broker which would justify a continuance of the original rate. Most food brokers much prefer to operate on a sliding scale than to lose entirely an account that has been highly successful and on the income from which they have depended for the maintenance and profit of their operations. The producer would benefit from such adjusted compensation in maintaining in the territory the selling experience and prestige of the broker who was responsible for the success of the product and at the same time bringing about a lower selling cost. It is axiomatic that one cannot have his cake and eat it too, and the principal who attempts to achieve such an impossible feat will ultimately suffer for his ambitions.

The matter of replacing a broker with a salaried salesman has been introduced into this discussion of brokerage rates because such procedures are invariably the result of the principal's efforts to lower the selling costs of a product that is enjoying a large volume of sales, for which the broker is receiving payments that appear to be excessive. The subject accordingly should come under the consideration of brokerage rates, because adjustments of them seem to be the only expedient for correcting one of the greatest deterrents to the fulfillment of the food broker's destiny.

It is impossible to give too much space to a consideration of the ways of eliminating "lost-account" tragedies. It would seem that an adjusted rate of brokerage which would not cause any hardship to the broker and which would lower the selling costs to the principal would be a fair and reasonable method of correcting this important matter of penalizing the broker unjustly for his successes.

Division of Brokerage to Selling Broker.—The matter of paying brokerage for sales made by one broker to a wholesale buyer who may operate branch houses located in another broker's territory must also be considered in this chapter. Many of the large wholesale grocery distributors have branch houses, frequently spread around a large area which embraces the territories allocated to other brokers. Some of these may be direct-buying branches; in other cases the purchases may all be made in the home office and the merchandise then shipped to the various branches.

These conditions bring up the matter of brokerage payments to the various brokers who are affected by such sales. For instance, a broker located in St. Louis may make a large sale to a jobber in that city. Some of the merchandise purchased by the buyer in St. Louis will be sent to a branch house in Kansas City. If the principal has a broker in Kansas City will he be entitled to any commission on the merchandise shipped into his territory by the buyer in St. Louis, or will the St. Louis broker get all the brokerage on the sale he has made, regardless of where the merchandise may be shipped later? From this example it may be seen that endless complications may result and many differences arise between the various brokers unless a general policy is established by all the brokers to cover these contingencies.

Attitude of the Brokers Association on Division of Brokerage.—In this connection a special bulletin entitled "An Equitable Brokerage Arrangement" was published by the National Food Brokers Association under date of July 17, 1930; since this bulletin is an expression of the attitude of the Brokers Association on this problem of brokerage division, it is here quoted verbatim:

An Equitable Brokerage Arrangement

Changes in production and distribution methods during the past ten years brought about a problem which presented itself to the food broker in critical form more than two years ago. Consolidations and mergers, principally among large wholesale distributors of grocery products, concentrated buying in some of the larger markets, while the merchandise itself was distributed widely among branch distributing houses of the buyer, located in territory covered for the sellers by other food brokers.

This resulted in an inequitable position among the brokers representing the sellers in those markets and territories where the buyer had branch houses. It brought about a thorough discussion among the members of this Association. A questionnaire was sent to all members two years ago, asking their opinions as to a just method of meeting the situation. The response was immediate and complete. Nearly every member of the Association expressed an opinion and while there were many differences, one general and equitable principle seemed to run through them all.

There was a unity of opinion that in no case should the incentive for selling effort on the part of broker be lessened. On the contrary, in every way the broker should be encouraged by the loyalty of his principal to represent the principal to the fullest extent of his ability. The principal, having placed his representation in the hands of those who are responsible for his success and prosperity, should give, expect and receive 100% co-operation.

At the 1930 annual convention of the National Food Brokers Association, at a session attended by representatives of a majority of the members, one of the largest attendances, if not the largest, at any regular session of the Association, a motion—

"That this Association go on record as recommending to all principals that one-third of the brokerage be paid to the selling broker, and two-thirds be paid to the broker into whose territory the merchandise is shipped" was adopted by an almost unanimous majority.

At a subsequent session of the convention, the report of the Committee on Resolutions was unanimously adopted. Resolution No. 8, reads as follows:

"Whereas—it appears that various packers and manufacturers have raised the question of the proper distribution of brokerage in territories affected by sales to firms having branches in markets assigned to other brokers, and

"Whereas—after a free and full discussion of the matter was had at the evening session of this convention, in which it was the overwhelming sense of the meeting that such division should be on the basis of one-third to the broker making the sale, and two-thirds to the broker into whose territory the delivery is made, be it

"RESOLVED—that this Association recommend to the interested parties in such cases that they adopt this decision on the part of the National Food Brokers Association as a policy that is fair to all concerned, and govern themselves accordingly."

In accord with the sense of the meeting, and a motion there adopted, the motion and the resolution is being made known to all organizations of those who employ the service of food brokers, as being the wish of this Association that the recommendation be followed by all principals.

By Direction of the Executive Committee.
PAUL FISHBACK, Secretary.

How Some Brokers Regard Divisions of Brokerage.—Investigations indicate that, regardless of the fact that the Bulletin herein quoted has been adopted by an almost unanimous majority of the members of the National Food Brokers Association, there are many brokers and principals who are not dividing commissions on this basis. Many brokers, interviewed on the subject, affirm that the division is unfair to the broker who makes the original sale and who is responsible for the initial distribution of the product with a wholesale buyer who operates branch houses. They claim that they have advocated an equal division of the brokerage between the selling broker and the broker into whose territory the merchandise is shipped; unquestionably a large number of principals and their various brokers have accepted this more liberal division. Other principals adopt the policy that full brokerage follows the invoice, which means that the broker located in the territory to which the invoice was sent is entitled to the full commission on it.

The Matter of Split Brokerage between Broker and Buyer.—The matter of what is known to the trade as "split" brokerage is also of importance. No principal can ever permit his broker to divide or split his brokerage with a buyer, and no legitimate broker will stoop to such a practice. This is one of the evils that must be recognized; it may appear occasionally among the food brokers, as it has often appeared in some other guise with salaried salesmen in their relationships with certain buyers. This practice is now prohibited by the Robinson-Patman Act. Since this Act has a most important bearing on the food industry, a copy of it appears in the Appendix of this book.

It is obvious that the practice of splitting commissions places the guilty broker under an obligation to the buyer, which would seldom prove to be to the best interests of the principal. This split is not necessarily made in cash or discounts, but can be effected by the use of freight or other incidental allowances which are not in order. To say the least, any practice that causes discrimination between buyers by which one has a secret advantage over other buyers is to be discouraged and stopped by legal measures. The provisions of the Robinson-Patman Act outlaw most of the shady practices which were so common for many years in the grocery trade; regardless of this or any other Act regulating the ethics of a business, some ingenious individuals will always find a way to circumvent the rules. The only way to preserve any business from ultimate rigid governnental regulation is to conduct it along the lines that are currently and commonly accepted as ethical and never to permit any departure from these generally accepted principles.

Giving Brokerage to a Buyer Instead of to the Broker.—Brokers have long resented with just indignation the practice of a principal in selling directly to some buying groups who may be doing business in the broker's territory and ignoring him as far as his commission on such sales is concerned. Such practice invariably means that the buying groups are receiving as an extra discount the usual brokerage that should have been paid to the broker, or that the principal is selling to the favored buyers at such low prices that the payment of brokerage would be a prohibitive extra selling expense. It is to be hoped that the Robinson-Patman Act will end for all time the evil of paying, directly or indirectly, a brokerage direct to a buyer or to the agent of the buyer, or to any intermediary acting for or in behalf of the buyer or under his direct or indirect control, in order to give such buyer a lower cost price than his competitors must pay for the same merchandise. There can be no objections to the efforts of any buyer to secure merchandise at the lowest possible price, but if a principal elects to give an extra discount to the favored buyer at the expense of his broker such a principal should not use brokers in his selling scheme, and legitimate brokers should refuse to represent such a principal.

Current Brokerage Rates on Popular Items.—A survey among brokers scattered throughout the many marketing centers in the United States indicates that the following brokerage rates for the various commodities given herein seem to be representative:

A. BROKERAGE BASED ON A PERCENTAGE BASIS

	Per Cent
Canned molasses	5
Maple sirup	5
Canned fruits	2½–4
Canned salmon	2½
Canned tuna fish	3–5

Dried fruits	2½
Nuts	2–2½
Maraschino cherries	5
Strained vegetables	5
Oval can sardines	5
Canned mackerel	5
Prune juice	3
Tomato juice	3
Ripe olives	5
Canned mushrooms	5
Canned lemon juice	5
Canned lime juice	5
Japanese crabmeat	3
Canned corned beef	5
Canned meats	5
Cereal canned meats	2½–3
Package or bulk cocoa	5
Maine sardines	5
Cuban pineapple	3
Canned shrimp	5
Canned oysters	5
Canned clams	5
Grape juice	5
Fly swatters	10
Synthetic sponges	10
Razor blades	10
Catchup	2½–3
Canned vegetables	2½–5
Natural sugars	5
Patented soaps	10
Egg dyes	10
Peanut butter	5
Mayonnaise	5
Salad dressings	5
Canned potato sticks	5
Imported olive oil	5
Chewing gum	10
Grapefruit juice	2½–5
Pineapple, canned	2½

B. Brokerage Based on Units

Canned milk	5 cents per case of 48 tall or 96 baby cans
Sugar	4½–6 cents per bag of 100 pounds or its equivalent
Dry beans	6–10 cents per bag of 100 pounds
Rice	6–8 cents per bag of 100 pounds
Soap	7½ cents per case of 100 bars
Soap chips	7½ cents per case of 41 pounds
Dried split peas	10 cents per 100 pounds

CHAPTER 5

ALLOCATION OF TERRITORY

Territorial Allocations Must Be Carefully Defined.—The territory allocated to each broker must in each particular case be carefully defined. A complete description of this territory should always be included in the agreement by which he is appointed the sole sales representative of the principal. Many agreements made with brokers by principals are too vague in respect to this definition of territory. When these limits are not carefully described, neighboring brokers may trespass on each other's domains. This sometimes causes ruptures in their relationships with one another; the principal cannot be neutral in the settlement of such disputes because he will be obliged to decide in favor of one broker or the other.

When each broker knows his exact territorial limits there can be no excuses for invading the area allocated to others. It may be difficult sometimes for the principal not to show some partiality to an exceptionally aggressive broker who goes into the territory of a less active one and makes a sale. In fairness to each broker, there must be limitations, and well-defined ones, to the field in which each is to operate, and under no circumstances should any broker be permitted to trespass on another's domain. If a broker submits to his principal an order from a buyer in another's territory, the principal should promptly return it to the trespasser with notification that the order cannot be accepted.

Territorial Allocations Depend on the Product and Its Sales Potentialities.—The extent of the territory allocated to each broker will depend largely on the character of the product to be sold and the number of potential buyers to whom the item will appeal. If the product is one that can be sold to a large number of wholesale buyers in various industries, the territory allocated to any one broker should not be too large, for then the broker cannot give all the potential buyers the intensive and regular coverage required by such an item. If the product, on the other hand, can be sold only to a selective type of buyer, the territory should be large enough to enable the broker not only to cover regularly all the potential buyers, but to assure him a reasonable income to warrant the time and efforts required in a wide territory.

Territorial area and income are directly related in that every broker expects each account to give him a reasonable income, and the territory must be large enough to make such a return possible. Largeness in this sense does not mean number of square miles but sales potentialities. A broker in New England may have more buyers in a single county than a broker in Colorado would have in the entire state.

The Broker's Regular Visiting Schedule.—Brokers, as a rule, may visit the largest and most important buyers as frequently as once each day; the less important and smaller buyers, once or several times each week. Some brokers canvass the buyers in the outlying districts as often as once a week or perhaps only once a month. The broker's visiting schedule depends, of course, on the character of the products he is selling and the buying habits and potentialities of the various wholesale buyers who are scattered throughout his territory. It is, however, recognized by most principals that a broker should visit every wholesale buyer in the territory at least once each month, and no large area should ever be allocated to a broker unless he will have time to fulfill this minimum requirement. If the broker cannot find the time to visit every buyer at least once each month, his territory is too large for him to handle properly.

The Broker Conserves His Time.—In the matter of canvassing the trade the distinction is quite sharp between a food broker's employment of his time and the manner in which a salaried traveling salesman is obliged to operate. The latter, if he is employed by a producer with a single product, or two or three items at the most, must wait until he can see the particular buyer who is charged with the duty of securing for the wholesale distributor merchandise of this type. If the buyer has restricted hours and can be interviewed only on certain days of the week, the salesman must await these hours and times for the visit. If he reaches town, for example, on Tuesday and the buying days are Monday and Thursday, he must either wait two days for an interview or pass up this particular buyer.

It frequently happens, when all other things are propitious, that the buyer may decline to see the salesman because there is no immediate need for the few items sold by the latter. In this event, new sales programs, new methods, new packaging, new advertising campaigns, or any other matters which the producer would like to bring to the attention of the buyer must be abandoned until some later date when the salesman again visits this town. On the other hand, the food broker, being on the ground, can so time his visits that he will avoid this particular buyer except on the days and during the hours when he will receive salesmen. The broker wastes no time but arranges his visiting schedule so that it coincides with each buyer's convenience; by such regular schedules the buyer knows when to expect the broker and is prepared for the interview.

When the broker follows his schedule, he always stands an excellent chance of having an audience with the buyer, because he generally represents a number of noncompeting principals who manufacture the many different lines which this buyer is obliged to purchase. Under these circumstances, although the buyer may not be in need of one or even several of the lines, there are sure to be some items in which he is interested and the broker is admitted. Once admitted and the subject matter, which gained him admission, closed, the broker then takes advantage of this opportunity to discuss matters which are of general interest to the buyer, including new sales programs, deals, packaging, advertising, etc., of the broker's other principals.

Importance of Territorial Assignments.—The principal is to be cautioned about allocating too much territory to any one broker at the beginning of a sales campaign when a brokerage organization is being established. It is better to err on the side of too small a territory than too large a one. Some brokers, when they are offered an account, are always ready to request much more territory than they actually cover on a regular traveling schedule. The principal should always insist on knowing just how frequently the broker will visit all the buyers in the requested territory before he makes a final allocation of such area to the broker. A few brokers may affirm that they cover a very large area, perhaps as much as an entire state, and the unwary principal may make the allocation only to learn at a later date that the broker's personal and regular attention is confined to only a relatively small portion of the area and that he has appointed subbrokers to sell the product in the remaining parts of the territory. The subbrokers work on a divided brokerage basis with the broker. The principal will soon find out that such an arrangement is not beneficial to his interests because the subbrokers invariably have direct working arrangements with other principals from whom they receive full brokerage, and naturally they will not give as much attention to accounts on which they receive half brokerage as to accounts for which they receive full brokerage.

Again, some brokers ask for more territory than they actually cover because they wish to have grounds for expansion at a later date. They may have plans for the future growth of their brokerage organizations and wish to capture as much territory in advance as they can, so that when the business becomes more profitable and the sales increase they can take on additional personnel to cover the larger area. Principals should never gamble on the ambitions and future growth of any brokerage concern; the only way to insure a maximum of efficiency and selling effort from a food broker is to allocate to him just as much territory as he and his associates can cover by regular schedule and no more. The legitimate broker will always carefully outline to the principal the exact territory he and his associates cover in a regular and consistent manner, and he will ask for no more than that.

Brokerage Appointments Must Be Confined to Logical Areas.—Brokers should be appointed only in the areas where the principal has a reasonable opportunity to sell his product. If the product, because of high freight rates or some other difficult competitive factor, can be sold successfully in only a limited area, the principal should confine his activities to the favorable areas and not attempt to appoint brokers in localities where they will be too much handicapped by conditions to make any sales. If the product is one that has a short life and deteriorates quickly, its marketing area should be limited strictly to a region close enough to the source of production to insure a quick movement of the product to the consumer.

A principal should never attempt to build up a brokerage relationship over a large area unless he is in a position to make prompt deliveries of his product anywhere so that all his brokers will be in a favorable and competitive position to solicit orders from the potential buyers and to give adequate service.

Disadvantages of Careless Territorial Delineations.—Some agreements made with brokers define the allocated territory by arbitrary lines, such as, for example: "The broker's territory will be east of a line drawn from city *A* to city *B* and south of a line drawn from city *B* to city *O*." Such methods of division may to a certain extent serve to outline a broker's territory, but for proper and accurate delineation and for sales statistical purposes they are quite unsatisfactory.

The County Is the Best Unit for Territorial Allocation.—The most efficient territorial description and allocation is by county lines. Each broker's territory should include so many counties, whether in one state or in several. The county line should always be the line of separation and the county the territorial unit for many reasons.

The brokers are all familiar with county lines. All counties have a county seat, and this town or city is in most cases the marketing center of the area, so that merchandise sold to a buyer located there will find its way to retail establishments throughout the county. When sales statistics are required in the food industry they are generally based on population figures because of the universal appeal of foods. Population figures for each county in every state are easily available; these statistics are generally quite complete and include not only the total number of inhabitants but population by race, color, sex, also the number of families, houses owned and rented, telephone subscribers, automobile registration, etc. These data are an invaluable aid to the principal who wishes to check into the sales potentialities of a product, because they give every kind of measurement on which sales quotas may be based, and can be found in almost every commercial atlas and in the census reports issued by the United States government.

In using the county method of territorial allocation some counties in the area assigned to a broker may not contain any buying points and he may object to their inclusion in his territory. However, every county in every state is located in the shopping area of some buying center; counties in which there are no such places should be included in the area of the nearest large buying center that influences the county. This eliminates unrepresented areas or counties that otherwise would appear in a state map which is divided among several brokers. With the development of the trading-area concept in market analysis has come an increasing demand for knowledge of trading areas as they actually exist; these are carefully delineated in the Atlas of Wholesale Grocery Trading Areas, issued

March, 1938, by the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce. The key maps in this atlas show that every county in every state has been included in some area dominated by an important trading center.

A broker should not object to having counties in which there are no buying points included in his territory, for it is to be expected that all areas will include the good as well as the bad, regardless of the method used for outlining them; when a state is divided by counties among a number of brokers there should be none unassigned on the state map, since each county contains at least a number of retail grocery stores that are potential outlets for the broker's products and a consuming population that must be considered as part of the whole territory over which the broker has dominion.

A division of the state of Tennessee by counties, in which the entire state is divided into four brokerage areas is shown in Exhibit 4; an examination of this map will show that the four brokers located in the marketing centers of Knoxville, Chattanooga, Nashville, and Memphis have each a well-defined territory made up of counties and that there are no blank spaces or unassigned counties on the map. Every county in the state has been assigned to one of the four brokers.

Use of Maps and Records of Territorial Allocations.—County outline maps for each state in the United States are printed by many map publishers and are available at any first-class stationery store. These maps in standard letter size of 8½ by 11 inches are quite inexpensive; it is good practice to send each broker one of them with the territory allocated him outlined by counties and shaded with a colored pencil. Such a map should accompany the agreement made with each broker; in addition, a complete summary of all the counties assigned to him should be included in the written agreement. All copies of brokerage agreements should be kept and carefully filed away by the

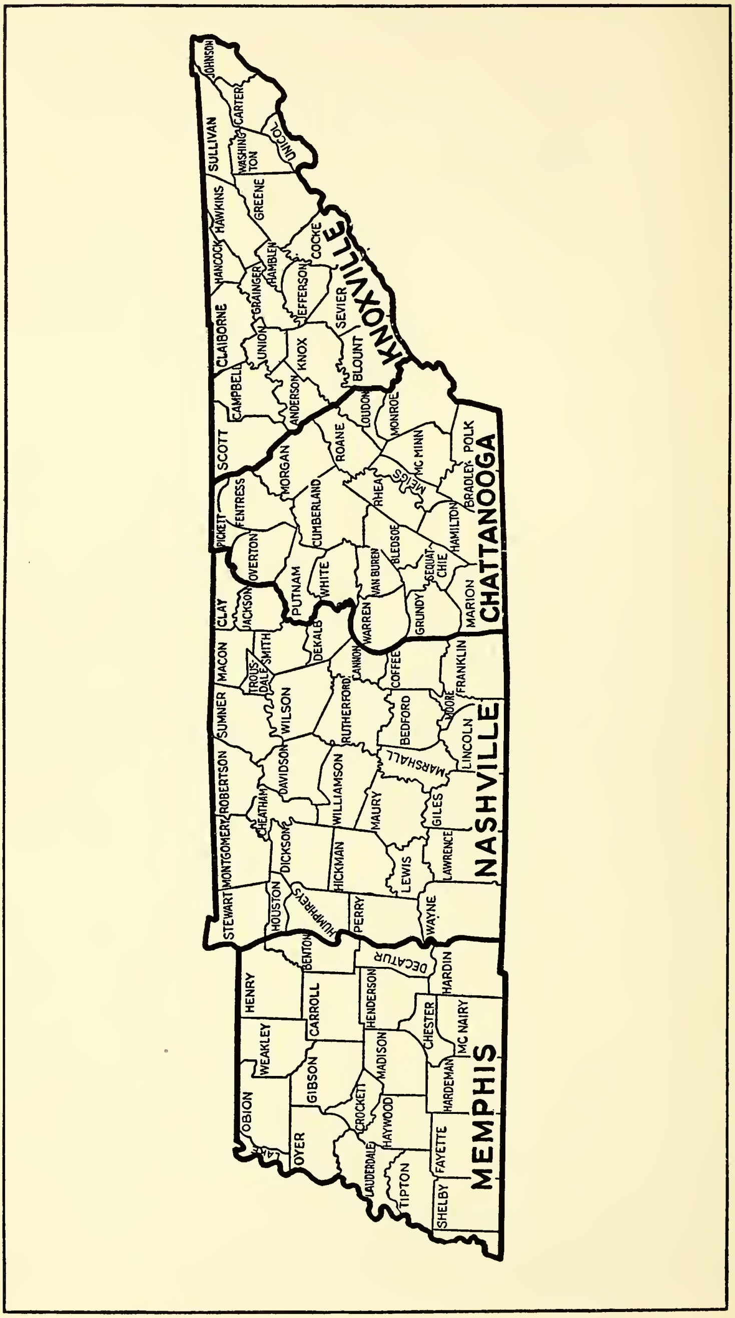

KNOXVILLE
CHATTANOOGA
NASHVILLE
MEMPHIS
JOHNSON
CARTER
UNICOI
SULLIVAN
WASHINGTON
GREENE
HAWKINS
HANCOCK
GRAINGER
HAMBLEN
COCKE
JEFFERSON
SEVIER
CLAIBORNE
UNION
KNOX
BLOUNT
CAMPBELL
ANDERSON
LOUDON
MONROE
SCOTT
MORGAN
ROANE
MC MINN
POLK
MEIGS
BRADLEY
RHEA
FENTRESS
PICKETT
CUMBERLAND
HAMILTON
BLEDSOE
SEQUATCHIE
OVERTON
PUTNAM
WHITE
VAN BUREN
CLAY
JACKSON
WARREN
GRUNDY
MARION
MACON
SMITH
DEKALB
CANNON
COFFEE
FRANKLIN
TROUSDALE
SUMNER
WILSON
RUTHERFORD
BEDFORD
MOORE
LINCOLN
ROBERTSON
DAVIDSON
WILLIAMSON
MARSHALL
CHEATHAM
MAURY
GILES
MONTGOMERY
DICKSON
HICKMAN
LEWIS
LAWRENCE
STEWART
HOUSTON
HUMPHREYS
PERRY
WAYNE
BENTON
DECATUR
HARDIN
HENRY
CARROLL
HENDERSON
CHESTER
MC NAIRY
WEAKLEY
GIBSON
MADISON
HARDEMAN
OBION
LAKE
DYER
CROCKETT
HAYWOOD
FAYETTE
LAUDERDALE
TIPTON
SHELBY

Exhibit 4.—The state of Tennessee showing a complete division of all counties into four brokerage areas.

principal so that, in the event disputes occur at some future date about territorial assignments, they will be available for reference, together with the territorial allocation in complete detail.

An efficient sales manager will provide himself with a binder containing each and all of these state maps which have been divided by county lines among the various brokers, so that when he visits them he will have with him at all times a compact record of all territorial assignments.

The Loose-leaf Method for Recording Territorial Assignments.—For handy purposes, the principal should maintain a special territorial file or loose-leaf record of each broker's territory. This record should show each county in each state for the territory assigned to each broker, and one page should be devoted to each broker. Such a record should contain also the essential statistics for each county, such as population, the number of wholesale buyers there, and other information that may be of value to the principal in appraising the sales potentialities of each county and of the total territory of each broker.

A specimen page of such a loose-leaf territorial and statistical record for each brokerage area is shown in Exhibit 5. This simple form has been prepared for a broker located in the city of Philadelphia, Pa., and shows the counties of three states which make up the total territory allocated to him.

It can be seen that a loose-leaf record of this nature lends itself to much greater elaboration of statistical detail than the sample page shows. The number of retail outlets in each county can be indicated, as well as any other data that might be used as the basis for computing quota systems, etc. If the territory is changed at any time the separate pages can be removed and replaced with new ones brought up to date. A territorial record of this type will make it unnecessary for a principal, at a later date, to search through files of miscellaneous correspondence with brokers to find out just what territory was assigned to each at the

EXHIBIT 5

Brokerage area, Philadelphia

Name of broker:..

Address..

Date of agreement..

	Population	Buyers
Counties in Pennsylvania:		
Philadelphia	1,950,961	80
Delaware	280,264	16
Lancaster	196,882	10
Chester	126,629	7
Montgomery	265,804	11
Berks	231,717	9
Bucks	96,727	4
Lehigh	172,895	7
Northampton	169,304	6
Monroe	28,286	1
Total Pennsylvania	3,319,469	151
Counties in New Jersey:		
Mercer	187,143	6
Ocean	53,069	4
Burlington	93,541	5
Camden	252,312	4
Atlantic	124,825	4
Gloucester	70,802	1
Salem	36,834	
Cumberland	69,895	1
Cape May	29,486	1
Total New Jersey	917,907	26
Counties in Delaware:		
Newcastle	161,032	5
Grand total all counties	4,598,408	182

time the brokerage agreement was made. With a file or binder of such information the principal or his sales manager has at his fingertips a complete record of all territorial divisions and material for computing sales statistics and quotas, or for making sales comparisons between the various brokers from time to time as compared with the indicated sales potentialities of each area.

It is also advantageous to purchase a large wall map of the clear-type variety for use in the general office, on which states are shown divided into counties. On this wall map each broker's territory may be outlined with a colored pencil to show at a glance just how the entire country is divided among the various brokers and where their areas are contiguous.

A colored or numbered pushpin can be placed at the city where each broker is located. When numbered, these pushpins identify the brokers by means of a key affixed to the large map to show the name and address of each. Further elaborations are possible with these large wall maps, such as an indication of the larger areas into which the United States may be divided among the district managers employed by the principal to direct the activities of the various brokers. Colored threads or strings running from city to city can be used to show the various trips made by these sales managers when they travel over the territory under their jurisdiction. Small pushpins of distinctive colors can be used to show each city and town where there is an active or a potential customer. Such a map serves as a control over the allocation of territory to brokers all over the United States and gives the principal or his sales manager a complete picture of all sales activities. A clear-type map may be kept up-to-date by erasing pencil lines and making new ones whenever necessary, and the pushpins can be shifted from place to place without damaging the map itself.

Territories Must Be Large Enough to Give Brokers an Opportunity for a Reasonable Income.—A study of the various marketing areas in the United States and of the successes and failures of the brokers operating in them seems to indicate that few food brokers can be successful, especially in the sparsely settled regions, unless they serve an area containing at least 500,000 inhabitants. In other words, under present conditions, few brokers can make an adequate living for themselves unless the territory in which they carry on their sales activities contains at least that population. There are many who serve their principals adequately, regularly, and efficiently in areas containing six million or more inhabitants, but such brokers usually employ sufficient personnel to cover the trade thoroughly in an area of this size and density.

When the population of a broker's area is too small to insure him a fair income with a reasonable number of accounts, he is tempted to take on too many lines to give any one line, even in the small area, adequate attention, because of the limited time any buyer will be able to devote to interviews. There is such a thing, it must be remembered, as taxing a buyer's patience. If the territory is too large, the broker is unable to cover it with regularity and the sales of the products handled by him suffer in consequence of his inability to contact wholesale buyers frequently enough to sustain their interest. Furthermore, every product marketed by a broker has a different sales potentiality in his territory; it is only through the test of time and experience that the producer of a new item that is being marketed through the services of food brokers will be able to determine the size of territorial allocation most advantageous to serve the best interests of all concerned.

Brokerage Areas Are Well Recognized in the Industry.—In assigning territories to brokers throughout the United States it will be found that those located in the various marketing centers have more or less well-defined territories in which they operate. These areas are generally recognized as the logical ones because of favorable topographical conditions that make communication easy between the broker's headquarters and the surrounding towns and cities where wholesale buyers are located. These various operating areas are often the result of transportation facilities such as railroads and highways; under these conditions it is obvious that state lines can be completely ignored.

Sometimes these areas will overlap or touch at certain points, as at Mansfield, Ohio, which is a meeting point for brokers from Cleveland, Columbus, and Toledo. Mansfield could be allocated to a broker in any one of these three large marketing centers. If it were allocated to the Toledo broker, those in Cleveland and Columbus should not be permitted to solicit orders for the principal in Mansfield, regardless of the fact that these brokers visit the city as frequently as does the Toledo broker.

Since the areas in which brokers operate are generally well recognized in the food industry, it is quite important for a principal to be familiar with them and to follow these general divisions when brokers are appointed.

A brief description of the general character of these many accepted brokerage fields is as follows:

NEW ENGLAND STATES

Maine.—The entire state together with the northern half of New Hampshire is usually covered by brokers located in Portland or Bangor.

New Hampshire.—The northern half of the state is usually allocated to the broker in Maine and the southern half to the broker at Boston, Mass.

Vermont.—The entire state is usually allocated to a broker in Boston who covers all of New England, or to a broker located in western Massachusetts.

Massachusetts.—The entire state is usually included in the territory allocated to a Boston broker. Springfield is the most important marketing center in the western part of the state, and some principals will give the eastern part of the state to the Boston broker and the western part together with the state of Vermont to a broker located in Springfield. Many brokerage concerns located in Boston cover completely all six of the New England states and maintain branch offices in cities like New Haven and Providence.

Rhode Island.—Providence is the principal marketing center of the state, and brokers in this city cover not only all of Rhode Island but also the southeastern part of Massachusetts including Cape Cod. Rhode Island is also covered by practically all Boston brokers, some of whom have branch offices in Providence.

Connecticut.—New Haven is the principal marketing center, and the entire state is generally covered by Boston brokers, some of whom have branch offices in New Haven.

Summary.—For a complete coverage of the six New England states from one to four brokers will be required, depending on the territories intensively worked by those selected.

MIDDLE ATLANTIC STATES

New York.—The state is generally divided into five principal marketing areas as follows:

1. *New York City.*—Most of the brokers in this city confine their efforts to the metropolitan area, which includes northeastern New Jersey and Long Island. Some few brokers here cover the entire state with branch offices in Albany, Syracuse, Rochester, and Buffalo.

2. *Albany.*—Brokers in this city cover the eastern part of the state from Newburgh to the Canadian border and from the eastern state boundary to a line drawn north and south through the city of Rome. Albany brokers as a rule do not visit any of the near-by points in the New England states.

3. *Syracuse.*—Brokers in this city cover the east central part of the state from Rome to Geneva and from Elmira and Binghamton to Oswego, Watertown, and Ogdensburg. One brokerage concern in Syracuse covers the entire state

with the exception of metropolitan New York City and has branch offices in Albany and Buffalo.

4. *Rochester.*—Rochester brokers usually cover the west central part of the state from Geneva to Batavia and from Elmira to Olean. A few Rochester brokers cover cities in the extreme northern part of central Pennsylvania. This city is also visited by brokers from Buffalo.

5. *Buffalo.*—Brokers from this city usually cover the extreme western part of the state, especially the counties of Niagara, Erie, Cattaraugus, and Chautauqua. Some include in their working area the cities of Rochester, N. Y., and Erie, Pa.

New Jersey.—The northern half of New Jersey is usually covered from New York City, but there are local brokers in Newark who also cover this field. Only on rare occasions will Newark brokers enter the New York City market. Southern New Jersey, from Trenton to Cape May, is usually covered by Philadelphia brokers.

Pennsylvania.—The state is usually divided into at least four marketing areas which are as follows:

1. *Philadelphia.*—Brokers in this city usually cover the southeastern part of the state as well as the southern half of New Jersey and the northern part of Delaware. Philadelphia brokers rarely go west of Lancaster or north of Pottsville, Pa.

2. *Harrisburg.*—The central part of Pennsylvania from the Maryland state line to the New York state boundary is usually covered by brokers from this city or from near-by Lancaster. The territory of the Harrisburg brokers from east to west extends from Lancaster to Huntingdon.

3. *Scranton or Wilkes-Barre.*—The northeastern part of the state to the New York and New Jersey boundaries is usually covered by brokers from Scranton or Wilkes-Barre. These brokers seldom go south of Pottsville or west of Williamsport, Pa.

4. *Pittsburgh.*—Brokers in this city usually cover the entire western part of Pennsylvania from Huntingdon to

the Ohio state line and from Wheeling, W. Va., to Erie, Pa. Some Pittsburgh brokers include the towns in eastern Ohio along the Ohio River and the extreme northern part of West Virginia.

Some principals employ a fifth division of the state with a broker in Altoona to cover the west central portion.

Summary.—For a complete coverage of the three Middle Atlantic states from six to eleven brokers will be required, depending on the territory covered by those selected.

EAST NORTH CENTRAL STATES

Ohio.—There are five distinct marketing areas in this state which are as follows:

1. *Cleveland.*—Brokers from this city cover all of the northeastern part of the state from Mansfield to the Pennsylvania line, sometimes including the city of Erie, Pa. Cleveland brokers may go as far south as East Liverpool and Zanesville, Ohio.

2. *Columbus.*—The central part of the state is covered by brokers from this city. This area extends from Zanesville to Dayton and from Chillicothe to Mansfield.

3. *Toledo.*—Brokers from Toledo cover the northwestern part of Ohio and a few cities in the southern part of Michigan, excluding Detroit.

4. *Cincinnati.*—Cincinnati brokers cover southeastern Ohio and a small portion of northern Kentucky along the Ohio River.

5. *Portsmouth.*—Brokers from this city cover the extreme southern part of the state along the Ohio River as well as the city of Huntington, W. Va., and the Sandy Valley section of eastern Kentucky. (This same area with the exception of the southern part of Ohio is covered by brokers from Huntington, W. Va., and Ashland, Ky.)

Indiana.—This state contains three important brokerage areas:

1. *Indianapolis.*—Brokers from this city cover the central part of Indiana. A few Indianapolis brokers cover the entire state.

2. *Terre Haute.*—Brokers from here cover the west central part of Indiana and the east central part of Illinois.

3. *Evansville.*—The brokerage area around this city includes all of southern Indiana as well as the southern part of Illinois and the western part of Kentucky.

The northern part of the state is covered by brokers from Chicago, Indianapolis, and Toledo.

Michigan.—The state contains two important brokerage areas:

1. *Detroit.*—Brokers in this city usually confine their efforts to the local trade; some few cover the marketing points in the southeastern part of the state and along Lake Huron north to Bay City.

2. *Grand Rapids.*—Brokers from this city usually cover the western part of Michigan from the Ohio state line to the top of the peninsula. The extreme northern part of the state north of Lake Michigan is covered by brokers from Milwaukee, Duluth, and Green Bay, Wis.

Illinois.—There are four principal marketing centers in this state:

1. *Chicago.*—Brokers in this city usually confine their activities to the local buyers. Some few Chicago brokers visit the trade in northwestern Indiana and the northern part of Illinois.

2. *Peoria.*—The north central portion of Illinois is covered by brokers from this city. This territory is also covered by brokers located in the cities of Springfield, Bloomington, and Danville.

3. South central Illinois is covered by brokers from St. Louis, Mo.

4. Southern Illinois is visited by brokers from Anna, Cairo, Carbondale, all located in this area and by brokers from Evansville, Ind.

A secondary marketing center in Illinois is Quincy; brokers from this city cover the extreme central western part of Illinois, the northeastern part of Missouri, and the southeastern part of Iowa.

Wisconsin.—The most important marketing center of the state is the city of Milwaukee; brokers from this city usually cover the entire state. Some Milwaukee brokers visit the extreme northern part of Illinois except the city of Chicago. If additional brokerage representation is desired in the western part of the state brokers are located in La Crosse, who cover the southeastern part of Minnesota. Brokers for southeastern Wisconsin are also located in Waukesha. The northern part of the state is covered by brokers from Duluth, Minn., and the extreme west central portion by brokers from the Twin Cities.

Summary.—For complete coverage of the five East North Central states from fourteen to nineteen brokers will be required, depending on the territory covered by those selected.

WEST NORTH CENTRAL STATES

Minnesota.—There are two important brokerage areas in this state:

1. *The Twin Cities.*—Brokers located in Minneapolis and St. Paul usually cover the entire state with the possible exception of the extreme northern part and the extreme southwestern part. These brokers also visit the trade in the west central part of Wisconsin.

2. *Duluth.*—Brokers from this city cover the northern part of Minnesota, the northern part of Wisconsin, and the north Michigan peninsula.

The extreme southwestern part of the state is visited by brokers from Sioux Falls, S. D., or from Sioux City, Iowa. The extreme southeastern part of the State is visited by brokers from La Crosse, Wis.

Iowa.—The principal marketing center of Iowa is Des Moines, and brokers from this city generally cover the entire state. For intensive coverage of the eastern part of the state brokers are located in Cedar Rapids and Davenport. The extreme western part is covered by brokers from Sioux City and Omaha; the southeastern part, by brokers from Burlington, Iowa, or Quincy, Ill.

Missouri.—The state is generally divided in half by a line running north and south through the center. The portion of the state east of this line is allocated to brokers in the city of St. Louis; the portion west of the line, to brokers in Kansas City.

North Dakota.—Fargo is the only important marketing center in the state; brokers from this city usually visit all the buyers in the entire state.

South Dakota.—The only important marketing center in the entire state is the city of Sioux Falls. Brokers from this city usually cover the portion of the state east of the Missouri River as well as the southwestern part of Minnesota and the northwestern corner of Iowa.

Nebraska.—The principal marketing center is Omaha, and brokers from this city usually cover the entire state as well as that part of South Dakota which is west of the Missouri River. Some brokers from Omaha cover the extreme western part of Iowa including Sioux City.

Kansas.—There are two important brokerage areas in Kansas. The eastern part of the state is usually allocated to brokers in Kansas City, Mo., and the central and western portions to brokers in Wichita.

Summary.—It will require from nine to twelve brokers to cover the seven states in this West North Central group of states.

SOUTH ATLANTIC STATES

Delaware.—The only important marketing center in the state is Wilmington, which is usually covered by brokers from Philadelphia, Pa. The southern part of the state is sometimes included in the territory allocated to a broker in Baltimore, Md.

Maryland.—The entire state is usually considered as one marketing area and covered by brokers from Baltimore.

Baltimore brokers also cover the eastern shore of Maryland, the southern part of Delaware, and sometimes the District of Columbia.

District of Columbia.—Brokers located in Washington usually confine their efforts to the city trade and a few near-by towns in northern Virginia.

Virginia.—There are three principal marketing areas in this state:

1. *Norfolk.*—Brokers from this city usually cover the extreme southeastern part of the state and the northeastern section of North Carolina.

2. *Richmond.*—Brokers from this city cover the central portion of Virginia from the North Carolina line north to Charlottesville and Fredericksburg, and from Richmond on the east to Roanoke on the west.

3. *Roanoke.*—Brokers from this city cover the western part of Virginia.

West Virginia.—There are four brokerage areas in this state:

1. *Huntington.*—Brokers from this city cover the western part of the state and the Sandy Valley section of eastern Kentucky.

2. *Bluefield.*—This area includes the extreme western part of Virginia and the southern part of West Virginia.

3. *Charleston.*—Brokers from this city cover the central part of the state.

4. *Clarksburg-Martinsburg-Wheeling.*—Brokers located in these three cities cover the northern part of the state.

North Carolina.—There are five brokerage areas in the state:

1. *Charlotte.*—Brokers from this city cover the west central part of the state and portions of northwestern South Carolina.

2. *Asheville.*—The extreme western portion of the state is covered by brokers from this city.

3. *Greensboro.*—Brokers from this city cover the northwestern part of the state.

4. *Raleigh.*—The east central part of the state is covered by brokers from this city.

5. *Wilmington.*—Brokers from this city cover the southeastern part of the state.

The extreme northeastern part of the state is usually covered by brokers from Norfolk, Va., some of whom give coverage for the entire state of North Carolina with branch houses in Wilmington, Charlotte, Greensboro, and Winston-Salem.

South Carolina.—There are three brokerage areas in the state:

1. *Greenville-Spartanburg.*—The western part of the state is covered by brokers from these two cities.

2. *Columbia.*—The central portion of the state is covered by brokers from this city.

3. *Charleston.*—The brokerage area for this marketing center is the eastern part of the state.

Georgia.—There are two primary brokerage areas in Georgia:

1. *Atlanta.*—Brokers from this city usually cover the northern and central part of the state.

2. *Savannah.*—The southeastern part of the state to the Florida line is covered by brokers from this city.

Some principals distinguish five additional secondary marketing areas in the state. These are the areas surrounding respectively the cities of Columbus, Albany, Augusta, Macon, and Valdosta. Brokers are located in these cities and confine their activities to the surrounding territory.

Florida.—The state is divided into three well-defined brokerage areas:

1. *Jacksonville.*—Brokers from this city cover the northeastern part of Florida from the Georgia state line south to Orlando. Several brokers in this city cover the entire state and have branch offices in Tampa and Miami.

2. *Tampa.*—Brokers from this city cover the central part of the state along the Gulf shore.

3. *Miami.*—The southern part of Florida is covered by brokers from this city.

The central portion of the panhandle part of the state is usually covered by brokers from Valdosta, Ga., or from Dothan, Ala. The extreme western part of the panhandle is covered by brokers from Mobile, Ala.

Summary.—To cover the District of Columbia and the eight states in this group of South Atlantic states will require from fifteen to twenty-seven brokers, depending on the territories covered by those selected.

EAST SOUTH CENTRAL STATES

Kentucky.—There are three important brokerage areas in this state:

1. *Louisville.*—Brokers from this city usually cover the west central part of the state from Danville to Madisonville and from the Ohio River to the Tennessee state line. Some Louisville brokers also visit the buyers in the southern part of Indiana.

2. *Lexington.*—Brokers from Lexington usually cover the east central portion of the state from Hazard to Danville and from the Ohio River to the Tennessee line.

3. *Ashland.*—Brokers located in this city usually cover the eastern part of the state, Huntington, W. Va., and some of the towns in southeastern Ohio along the Ohio River.

The extreme western part of the state along the Mississippi River is usually covered by brokers from Evansville, Ill., and the extreme southeastern part of the state by brokers from Knoxville, Tenn.

Tennessee.—This state contains four well-defined brokerage areas:

1. *Memphis.*—Brokers from this city cover the western part of the state from the Tennessee River to the Mississippi. Memphis brokers also cover northern Mississippi and eastern Arkansas.

2. *Nashville.*—The brokerage area of this city includes the west central portion of Tennessee from Smithville to

the Tennessee River and from the Kentucky to the Alabama state lines.

3. *Chattanooga.*—Brokers from this city cover the west central part of the state, the northeastern part of Alabama, and the northwestern part of Georgia.

4. *Knoxville.*—This brokerage area covers the eastern and northeastern parts of Tennessee. Brokers who cover this same territory are also located in Johnson City, Tenn., and in Bristol, Va.-Tenn.

Alabama.—There are four brokerage areas in this state:

1. *Birmingham.*—Brokers from this city cover the northern part of the state.

2. *Montgomery.*—The central portion of the state is covered by brokers from this city.

3. *Mobile.*—Brokers from this city cover southern Alabama and southern Mississippi as well as the extreme western part of the panhandle of Florida.

4. *Dothan.*—This is a new and rapidly developing marketing center in southeastern Alabama; brokers from this city cover the southeastern part of the state, the southwestern part of Georgia, and the central portion of the Florida panhandle.

Brokers can also be found in the marketing centers of Selma and Tuscaloosa who operate in the central part of the state. Brokers from Columbus, Ga., cover the east central part of Alabama and the Chattanooga brokers come into the northeastern part of the state.

Mississippi.—The northern part of the state is generally covered by brokers from Memphis, Tenn., and the southern part by brokers from Mobile, Ala., and New Orleans, La. Jackson is the most important marketing center in the state; this central area is covered by brokers from Jackson and Vicksburg. The Vicksburg brokers also cover the northeastern portion of Louisiana.

Summary.—To cover the four states in the East South Central group will require from twelve to sixteen brokers, depending on the territory covered by those selected.

WEST SOUTH CENTRAL STATES

Arkansas.—The principal marketing centers of the state are:

1. *Little Rock.*—Brokers from this city cover the entire central portion of the state.

2. *Fort Smith.*—Brokers from this city usually cover the western part of Arkansas and the eastern part of Oklahoma.

The extreme eastern part of the state is usually covered by brokers from Memphis, Tenn. For more intensive coverage brokers can be found in El Dorado, Fayetteville, Pine Bluff, and Taxarkana, all important distributing points.

Louisiana.—There are four main brokerage areas in this state:

1. *New Orleans.*—Brokers from this city cover the eastern part of the state and the southern part of Mississippi.

2. *Shreveport.*—Brokers from this city cover the northwestern part of the state and a few counties in the adjoining state of Texas. Shreveport is also visited by brokers from Texarkana.

3. *Monroe.*—Brokers from this city cover the northeastern part of the state.

4. *Lafayette.*—Brokers from this city cover the south central and southwestern part of the State.

Brokers from Houston, Tex., generally cover the extreme southwestern part of Louisiana.

Oklahoma.—The principal marketing centers of the state are Oklahoma City and Tulsa. Oklahoma City brokers usually cover the central portion of the state; those in Tulsa, the northeastern part of the state as well as portions of southeastern Kansas, southwestern Missouri, and northwestern Arkansas.

Texas.—This huge state has five well-defined brokerage areas:

1. *Fort Worth-Dallas.*—Brokers in these two cities cover the northeastern part of the state to the Arkansas and Louisiana state lines.

2. *Houston.*—This brokerage area covers the southeastern part of Texas and the southwestern part of Louisiana.

3. *Austin-San Antonio.*—Brokers from these two cities cover the south central portion of the state to the Rio Grande River.

4. *El Paso.*—Brokers from this city cover the extreme western part of Texas and the southwestern part of New Mexico.

5. *Amarillo.*—The northwestern part of the state is covered by brokers from this city.

Summary.—To cover the four states of this West South Central group will require from nine to fifteen brokers, depending on the territory covered by those selected.

MOUNTAIN STATES

Montana.—The principal marketing center is Butte and brokers from this city usually cover the entire state. Some Butte brokers have branches in the cities of Billings and Great Falls.

Wyoming.—The state possesses no important marketing centers. The southern part is usually covered by brokers from Denver, Colo., and the northern part by brokers from Butte, Mont.

Idaho.—The principal marketing center is Boise, and brokers from this city usually cover the southern portion of the state. The southeastern part of the state is visited by brokers from Salt Lake City, Utah, and the extreme northern part by brokers from Spokane, Wash. The southwestern part is visited by brokers from Portland, Ore.

Colorado.—The principal marketing center is the city of Denver from which brokers usually cover the entire state. Brokers are also located in Pueblo and Trinidad and cover the southeastern part of the state.

New Mexico.—The principal marketing center is Albuquerque; brokers from this city usually cover the central and northern parts of the state. The buying centers in the southeastern part are visited by brokers from El Paso, Tex.

Arizona.—This state has two principal marketing areas. The central and northern parts are covered by brokers from Phoenix; the southern part by brokers from Tucson. It is customary for the larger brokerage concerns in Los Angeles to have branch offices in these two Arizona cities.

Utah.—The principal marketing center is Salt Lake City; brokers from this city cover the entire state as well as portions of southern Idaho.

Nevada.—There are no important marketing centers in this state. The entire state is usually allocated to brokers in San Francisco, Cal.

Summary.—A complete brokerage coverage of the eight states in this Mountain group will require from seven to ten brokers.

PACIFIC STATES

Washington.—There are three marketing centers in this state:

1. *Seattle.*—Brokers from this city cover the northwestern part of the state.

2. *Tacoma.*—Brokers from this city cover the central portion of the state.

3. *Spokane.*—Brokers from this city cover the western portion of the state and the northern part of Idaho.

Oregon.—There is only one important marketing center in this state and that is the city of Portland. Brokers from Portland cover the entire state and visit the buying centers of the southern part of Washington and the southwestern part of Idaho.

California.—The state is divided into two brokerage areas. The dividing line is the one across the state from east to west, formed by the northern boundaries of the counties of San Luis Obispo, Kern, and San Barnardino. North of this line is the territory usually allocated to the broker in San Francisco, and south of this line to the broker in Los Angeles. San Francisco brokers usually cover the state of Nevada.

Summary.—To cover the three states in the Pacific group will require from six to seven brokers, depending on the territory covered by those selected.

Complete Recapitulation of All Brokerage Areas.—A complete recapitulation of the entire 48 states and the District of Columbia shows the minimum and maximum number of brokers required for a complete national sales coverage:

State group	Population, per cent	Number of states	Minimum number brokers required	Maximum number brokers required
New England	6.7	6	1	4
Middle Atlantic	21.3	3	6	11
East North Central	20.0	5	14	19
West North Central	10.7	7	9	12
South Atlantic	13.3	8	15	27
East South Central	8.3	4	12	16
West South Central	10.0	4	9	15
Mountain	2.9	8	7	10
Pacific	6.8	3	6	7
Total United States	100.0	48	79	121

CHAPTER 6

CO-ORDINATION

After the broker has been appointed there are several requisites which are essential in order to procure the best results through this method of marketing. These have been grouped together in this chapter under the heading "Co-ordination," because this term best describes the harmonious relationship that must exist between broker and principal if marketing through the medium of food brokers is to be successful and profitable.

The Principal Elements in Co-ordination.—The most important of the many contributing factors for close co-ordination between broker and principal are:

1. The education of the broker in the necessary details of the product he is expected to market.
2. The nature of the personal contacts of the principal or his representative with the broker.
3. Supplying the broker with timely information regarding the product he will sell for the principal, such as price lists, trade conditions, selling advice, etc.,
4. Close co-operation between principal and broker on credits.

1. EDUCATING THE BROKER

No salesman can work efficiently and effectively unless he is thoroughly familiar with all the details and uses of the product he is selling. This holds true whether it is applied to the salaried salesman or to the food broker who functions in a selling capacity in lieu of the former. Thousands of dollars are spent annually in practically every field, by large corporations, in training salaried or commission salesmen for the job of selling and particularly in familiarizing them with the product they are expected to market. Much time and attention are given to the preparation of textbooks, sales manuals, and other forms of printed instruction. Moving pictures are prepared to show them not only the uses of a product but the proper approach in securing a satisfactory interview with a prospective buyer. Some companies even maintain schools for this type of training, and new salesmen are required to attend classes for a definite period before they are permitted to engage in the making of sales. There seem to be no limits to this educational work, and the results have apparently justified the expenditure of money and time, for trained salesmen invariably produce better results than those untrained.

Brokers Require a Complete Knowledge of the Products They Sell.—Some producers who use food brokers as the selling medium do not give any, or at best little, attention to the matter of educating their brokers so that they are equipped with a knowledge of the product sufficient to do a good selling job. But just as it has proved extremely beneficial to train a salaried salesman, so also it will be beneficial to have every broker fully informed about the product he is engaged to market if the best is to be expected from his selling efforts.

Every product requires a different sales approach or technique, a different method of arousing the buyer's interest, and although these differences may be only of the slightest degree, they are important enough to command the study of those interested in the successful marketing of the product. The broker, if he is a successful worker, has of course had a wide and varied selling experience and does not require the elementary coaching in the fundamental rules of effective salesmanship; but a broker must know how the product he is expected to market is prepared, its particular quality, and how it compares with competitive products. He must know all of its uses, its distinctions, and all the various factors that may play a contributing part in the successful marketing of the product, together with all other information that will enable him to answer intelligently any questions regarding the product or its producers. If the broker does not possess this information in the fullest degree and cannot answer these questions, the buyer will hesitate before he purchases an unknown product from a broker who apparently is so little informed.

The Principal Must Furnish the Broker with Full Details Regarding the Product.—It is, accordingly, essential that the producer or the principal supply the broker with all necessary information regarding the product so that he will not be embarrassed and handicapped in his selling efforts. So many various kinds of products are being sold that it is not to be expected that each broker will be thoroughly familiar with the sales technique employed in selling each and all of these products. A broker may be appointed, for instance, to sell a line of canned meats who has never before sold such a product. He may have a very successful record in selling canned vegetables, but he has had no previous experience with meats. This does not prove that he cannot sell the canned meats. If he is trained, however, in the special technique and the proper sales approach required to market this type of product, he will, in time, be just as successful in selling the canned meats as he is with other items. Familiarity with the product will pave the way for the quick development of the sales approach; hence, the more information a broker possesses about a new product the more rapidly will he progress in his marketing efforts.

Frequently a good broker is given an account and makes little progress with it. The principal may then come to the conclusion that he has appointed the wrong broker. This lack of sales may be the fault of the principal and not of the broker. The principal may have neglected to train the broker in the special methods required to market his product or perhaps he may not have supplied the broker with the information required to convince buyers that the product is meritorious and has a distinct place in the buyer's market. Perhaps in time the broker will be able to discover for himself, if he is persistent and the principal is patient, the special technique required to sell the product; this involves a loss of time and may be very discouraging to the broker as well as to the principal.

It is of course assumed that a producer will know his own product, that he will have had some good reason for producing the article, and that he has every reason to believe that the item will be acceptable merchandise to the buyers and consumers of food and grocery products. One produces so that what is produced can be sold. The food field is so large and covers so many thousands of items that men's imaginations can go riot, and many items in the history of the industry have been produced which never could enjoy a wide consumer acceptance because of certain idiosyncrasies in our national dietary habits. The best salesmen in the world cannot sell an item that conflicts with popular taste psychologies. The food broker cannot be expected to sell a product for which there can be little or no genuine consumer acceptance.

If the producer, on the other hand, has a product that fills a need and will prove acceptable to the buying public, he should know why it fills the need and why it has attributes which will insure its acceptance; this is the information the food broker requires if he is to market the product successfully. There are many cases on record where food brokers, who are now eminently successful with an account, were so discouraged at the start that they were tempted to resign the account during the initial sales introductory work; but experience, persistence, and hard effort gradually produced results, and in time the account became highly profitable to both broker and principal.

If the principal is unable to assist his brokers in the knowledge of sales approach and if his own personal sales experiences do not equip him to render such helpful service to his brokers, then he must be patient with the brokers who are marketing the product and give them plenty of time to discover the methods they must use to make the sales campaign a successful one. This patience will prove to be advantageous to the principal because he will ultimately benefit from the varying sales experiences of his many brokers in as many markets without paying the cost of this investigational work, since the broker receives his remuneration only after the actual sale is made.

This brings into high relief the wonderful service the food brokers of America are rendering thousands of producers in showing them the way to market their products; also, when it is remembered that the food brokers of this country are personally responsible for the introduction of many items that are now an accepted part of the nation's diet, it can be seen that they have rendered a great service to the consuming public and, by accepting these pioneering merchandising responsibilities, have saved the American producer millions of dollars in sales experimental work. The salaried salesman is paid as usual during his introductory efforts, and such expenditures must be added to the cost of the product and paid for by the ultimate consumer; with the food broker, on the other hand, these selling expenses are absorbed in the routine of his work and he, instead of the producer or the consumer, pays the bill.

Brokers Should Visit the Principal's Factory.—The education or training of the broker is best accomplished by permitting him to visit the production plant of the principal and witness the processes of production or manufacture to become acquainted with all its details. If such a visit is impractical, then the principal should supply all this information by letter, photographs, or catalogues, with the fullest details, so that the broker lacks no information in making an intelligent presentation of the product to potential buyers. The broker must be shown the most effective manner for displaying the product to the buyer; he must be informed of the possible competition he will encounter and the best methods to meet it; he must know of the character and extent of the advertising to be used, if any, by the principal for stimulating a popular demand for the product; and he should be familiar, in general, with the marketing plan of the principal. It is obvious that there must be the closest co-operation between principal and broker if the latter is to be an effective instrument in marketing a product.

Brokers Can Be of Great Assistance in Planning the Sales Campaign.—Principals will find a close co-operative attitude most beneficial, because the broker with his wide experience and his knowledge of marketing conditions in the field in which he operates can frequently be of great assistance in the formulation of the selling campaign and the marketing plans. The broker has the advantage of knowing, quite accurately, what can and what cannot be sold in his particular territory. He is familiar with the buying habits and the peculiar psychologies of his many buyers. He has witnessed the success and the failure of many products in his market. This wealth of information should not be disregarded or overlooked by any principal who anticipates the use of his selling services. As a source of marketing information the broker's contribution is of a unique nature and of inestimable value to any producer, and the principal who does not avail himself of this expert knowledge may pay a high price for his neglect. Furthermore, the average food broker welcomes the opportunity to assist in the formation of marketing plans because he, as well as the principal, will benefit from them.

Brokers Require Adequate Samples.—Associated with this matter of education are samples of the product. It is essential that the broker be supplied, particularly when he starts his initial sales campaign, with adequate samples. Most of the items sold through food brokers to the grocery trade can readily be placed in sample form; often the original packages are small enough to be used for such purposes without a large expenditure for this important phase of publicity. If the item is a food product, the broker should be given sufficient samples so that he and every important member of his organization can individually test it in their own homes. The broker will also require samples for display, demonstration, and testing purposes for his many potential buyers, most of whom will want to test or sample the product. When a buyer is sold, he may wish additional samples for his salesmen. If the item is purchased by a wholesale grocer who has perhaps ten traveling salesmen, it is obvious that each of these men should have samples of the product to display to retail merchants; it is to the principal's benefit to have these retailers purchase the product and place it on their display shelves where it can be seen and bought by the ultimate consumer. Specialty items require more generous sampling than staple items; the producer of a specialty will find it helpful and economical to have small sample sizes of his product prepared if the original container is too costly for liberal distribution purposes. Sample sizes are always more effective if they are in a facsimile of the original container.

Samples to Brokers Should Be Gratis.—Brokers should not be expected to reimburse the principal for samples used in displaying his merchandise. This expense should be borne by the producer or principal and should be considered as a legitimate part of the necessary selling expenses, or even included in the production costs. Brokers should not take advantage of a principal in the matter of samples, and in most cases the principal should not refuse the samples requested for demonstration purposes. There is also the possibility of being too liberal with samples so that they lose their value and encourage wastefulness; but, since marketing through food brokers involves a relationship with many potential buyers in many markets, the sample requests of the average broker serve as a guide for the requirements of practically all brokers. When a broker requests an unusually large number of samples, far more than the average requirements, the principal will only then find it necessary to make an investigation into the reasons for the extraordinary request.

It has been the experience of most producers operating through food brokers that the maximum cost for samples should not exceed 1 per cent of the total sales volume; the average cost is far less. In the canned meat industry, for example, the sampling cost should not exceed one-half of 1 per cent. More samples are required when a broker is introducing a product. After the item is established on the market and buyers are familiar with it, fewer samples will be needed. With food specialties and the items sold under branded labels, it is beneficial to provide the wholesale distributors, from time to time, with samples for their salesmen, as this serves to stimulate the interest of these men in the product and maintain for it a wide distribution in the retail stores where it can be readily purchased by the consumer.

One packer of canned meats makes it a practice to send an assorted case of his products in original containers direct to the broker's home, where the family can test the products in their own kitchen and on their own table. This same packer sends an assorted case direct to the home of a large potential buyer—this, of course, with the knowledge and consent of the local broker.

The Broker's Sample Room.—Practically every food broker has in his office a sample room, where, on shelves designed to display the various products handled by him, a full line of samples or original packages is stocked. If a buyer comes into the office, these samples can be used for immediate testing purposes; they also provide the broker and his associate salesmen with a supply of samples which the salesmen will carry with them on visits to the various buyers throughout the broker's territory. An efficient broker will insist on a well-stocked sample room so that he is never unable to produce the proper sample for the inspection of a prospective buyer.

Samples Should Be of Convenient Size.—If the line is composed of a number of different food items, it is advantageous to have sample cases prepared, constructed somewhat like the conventional suitcase, which when opened up display all of the items in original containers tastefully arranged in niches countersunk into a "platform inset" covered with velvet or silk.

Other sample cases are prepared with compartments each containing a different item. If these types of sample containers prove to be too cumbersome, great ingenuity can be shown in preparing sample kits which are small and yet effective as display media. One manufacturer devised a compact kit by using empty cans of his various products from which the bottoms had been removed. The cans were labeled appropriately and, since they were bottomless, could be telescoped, one within the other, by using large and small cans for the various items. The smallest cans, being in the center of the nest, were standard filled cans of the most popular items, and could be used for "cutting" purposes. This particular kit, being no larger than a standard cigar box when fully packed, contained samples of eleven products, six empty cans without bottoms and five standard filled cans. The small filled cans of the popular items could be renewed as fast as they were used for cutting purposes, thus keeping the kit completely filled for demonstration at all times and prolonging its useful life.

From these details it can be seen that many principals consider the matter of sampling of paramount importance, particularly as far as the broker and his customers are concerned, and it is a good policy for every principal who markets his products through food brokers to see that they have adequate samples at all times and that these samples are prepared in the most attractive manner and packaged in convenient and handy kits which can be easily carried and displayed promptly and effectively to any buyer. Too much emphasis cannot be placed on the importance of keeping the size of the samples or of the sample kits in the smallest possible dimensions, so that they can be carried easily and without too much inconvenience by the brokers and salesmen. The smaller the sample, the greater the likelihood that it will be used for publicity purposes.

If kits are used, these should not be so complicated that the buyer's patience will be exhausted in watching the broker open his display and arrange it in its proper form. Simplicity in display will be far more effective than an elaborate arrangement, which may attract the eye more than the products it is designed to feature.

2. PERSONAL CONTACTS WITH THE BROKER

The importance of personal contact between principal and broker cannot be too strongly emphasized. These face-to-face meetings are essential if the best results are to be achieved. The principal should know the broker personally, so that mutual confidence and understanding can be developed and maintained. If the principal confines his sales to a relatively small area and uses only a few brokers to market his products there, he can and should make these necessary and frequent personal contacts with them. If, on the other hand, the principal uses many brokers covering a wide area and located in many marketing centers, he may be obliged to employ the services of a salaried general sales manager who is familiar with the details of marketing through food brokers and who can make the necessary personal contacts with them at frequent intervals.

The Sales Manager's Responsibilities.—When a general sales manager is employed, he should be given full authority over the appointment of all brokers and be responsible for their sales effort. It should be his duty to allocate territory to the various brokers, to visit them at frequent and regular intervals, and to educate and train them, if necessary, in selling the product, especially if it is one with which the broker has had little or no previous experience.

The sales manager should also have full authority to cancel unsatisfactory brokerage relationships.

A sales manager with these responsibilities must be a man with successful selling experience. The higher his sales record, the more able he will be to guide the efforts of his brokers. He may be at times called upon to "sell" a broker on the advisibility of accepting the representation of a product. The broker may not be able to visualize its sales potentialities, and the sales manager will have not only to awaken the broker's interest, but bring it to a point of enthusiasm. He will often be obliged to accompany the broker on visits to the largest buyers, where his training in salesmenship will enable him to command the respect of both his broker and the buyer. He must be familiar with every detail in the manufacture or processing of the product he is selling so that he can impart this information to the broker. He must be mentally alert and able to answer promptly and intelligently any questions asked by the broker or the buyer regarding his company or his product.

Frequently, when a broker accepts a new account, he will request the principal or the principal's sales manager to accompany him on what might be described as an introductory visit to the most important buyers. Then the sales manager will be called upon to display his sales ability with the broker and the potential buyer as audience, and it will certainly not reflect advantageously on the principal if this sales manager does not exhibit a complete knowledge of his product and show his ability by sincere, convincing salesmanship. If the sales manager makes a poor figure of himself, he will lose caste with his broker, who may come to the natural conclusion that if the sales manager is unable to sell his own product, the principal can hardly expect the broker to do much better.

The Incompetent Sales Manager.—Many principals are too careless in the selection of the sales manager or representative who will make contacts with the various brokers. In fact it is a common complaint among brokers that the men who visit them as representatives from the various principals are only too frequently unfitted for their responsibilities. It must always be remembered that the successful food broker is a highly trained salesman and he is apt to lose interest in an account when he witnesses the bungling efforts of a sales manager, obviously unfitted for his job. An incapable sales manager is a bad reflection on his employer. The broker will question the capability of a principal who displays such poor judgment in the selection of a representative.

The broker will undoubtedly be more keenly critical of inefficiency on the part of a sales manager than will the salaried hirelings working under him, should salesmen instead of food brokers be used for the marketing efforts. When salaried salesmen are employed, they generally ignore his shortcomings if they want to keep their jobs; under such circumstances the inefficient sales manager can carry on for a long time before his defects come to the attention of his employer. But not so with food brokers. The broker is an independent sales agent and can express his opinions freely; if his relationship with the principal's sales manager or representative is not built on esteem and respect, he can resign the account at any time.

Frequently principals have not met with success in marketing their products through food brokers, and many profitable relationships between them have been broken because of the conduct or the inefficiency of the sales manager selected. Many of the most successful brokers in America will admit that in many instances they were ashamed to take the principal's representative to call on the trade. Occasionally these representatives of responsible producers have been actually abusive, and buyers have requested the broker to cease bringing such men to a sales interview. Brokers have been known to order them out of their offices.

Essential Qualifications for the Sales Manager.—Since the success of a selling campaign through food brokers often hinges on the character of the man selected by the principal to make personal contacts with the brokers and since the selection of a properly qualified sales manager is of such great importance, it is advisable to detail briefly the most important qualifications for the incumbent of the office:

1. He must be a master salesman of long and successful experience.
2. He must be familiar with the food broker's selling methods.
3. He must have a thorough knowledge of trade areas, so that he can make the proper territorial allocations to the appointed brokers.
4. He must be an optimist with a pleasing character and an even disposition, and must possess the ability to make and hold friends and to influence people.
5. His character and personal habits must be beyond reproach.
6. He must be honest and sincere, and his word should be as good as his bond.
7. He must be patient, fair, impartial, and able to keep his political and religious opinions to himself.
8. He should have an excellent educational background so that his speech will be clear, his correspondence comprehensible, and his mind trained to grasp and solve problems quickly and intelligently.

The Sales Manager's Remuneration.—A sales manager or sales representative with these attributes cannot be attracted by a small salary. He can and will demand entirely adequate remuneration for his services, because it is in his power to direct and stimulate the sales efforts of master salesmen and their associates in every food broker's office and, because of his personal contacts with men of the highest sales ability, he will be obliged to use to the utmost every talent he possesses. An efficient, capable sales manager is worth the price. The difference in cost between a low-salaried incapable manager and a high-salaried efficient one is small when compared to the volume of sales the latter can command when he is thoroughly trained for his work.

Contacts between Principal and Broker.—The principal must also be careful of his conduct in his relationship and contacts with his brokers. He must deal with them in a fair and equitable manner. He must not misrepresent his products; he must be sure that the samples he sends to them are truly representative of the merchandise he will ship to the buyers. He must be prompt in paying his brokers the commissions they earn and must be faithful to his contracts. These are fundamental requisites of good business and should require no comment, but they are emphasized here because of their importance in dealing with a group of independent sales agents who draw no salaries and who insist on fair trade practices in their relationships with principals. The broker always has the privilege of refusing or resigning an account that is not up to his ethical standards.

The Use of Field Assistants for the Sales Manager.—Many of the large producers, who market through food brokers, not only employ a general sales manager, but permit this man to hire field assistants on a salary basis to help him in covering the trade. It is not unusual for some producers to employ as many as ten or even more district sales managers, all under the supervision of the general manager; these field assistants are each allotted a certain territory in which they confine their attention to making frequent visits to the brokers and to accompanying the brokers on selling visits to the various buyers in that territory. The frequency of the visits to these brokers depends largely on the nature of the product to be marketed and the sales volume that has been developed in any one territory.

When the sales are of large volume and there are many buyers, regular and potential, the visits to the broker are of course more frequent than if the sales volume is limited and the number of potential buyers restricted. It is highly important, however, when field representatives are used, that the sales manager responsible for their activities sees to it that each district representative has sufficient territory to keep him actively engaged. If the territory is not large enough to keep the man continuously busy, he is apt to spend much of his time loitering in some broker's office, to the annoyance of the broker and to the disadvantage of the principal.

District representatives should have scheduled trips throughout the large territory assigned to them; these trips should be made regularly and with no more time in any one broker's territory than is needed to visit the important buyers, to open new accounts, and to conduct the necessary consultations with the broker regarding current business affairs. The general sales manager should insist on weekly reports from these field representatives, showing in complete detail how each has occupied his time.

If complaints are received from any of the brokers regarding the conduct of these men, the sales manager or the principal should lose no time in making a personal investigation so that the methods of the offenders may be corrected before much damage is done. If this fails, then they should be removed from the territory or discharged, depending on the gravity of the offenses.

The Broker's Time Cannot Be Monopolized.—Most food brokers are quite willing to spend time accompanying a principal or his representative in a thorough coverage of all the potential buyers in his territory; but the broker's indulgence must not be abused. The broker cannot be expected to give all of his time to the selling of one account at the expense of his other principals. No broker can be expected to confine his attention to just one account. The secret of the broker's comparatively small commission rate is the fact that he represents a number of accounts, each of which contributes a share to his income.

Principals must recognize this when they ask a broker for a concentration of his time on their particular products.

A broker will always give a new account a disproportionate amount of his time, for it requires much more time to tell a buyer about a new product and to enlist his interest in it than it does to ascertain his immediate requirements for a product that is well established on the market. The broker realizes that a new product will require concentrated efforts for a while and he plans his selling time accordingly.

If the broker accompanies the principal or his representative on visits to the local trade—trade which the broker interviews frequently—he will in most cases devote his entire time to a discussion of that principal's product. If, on the other hand, the principal or his representative desires to accompany the broker on visits to outlying buyers —buyers whom the broker visits less frequently because of time and distance—the broker cannot be expected to give all of his time to the one account. A broker's time is valuable to him and his traveling expenses must be paid from the brokerage he receives from all principals; consequently when he makes the infrequent visits to buyers in remote localities he is obliged to pay some attention to his other accounts regardless of the pressure required by a new product.

Visiting the Buyers with the Broker.—When the broker is accompanied by a principal on his visits to buyers, he first introduces the principal and permits him to monopolize the buyer's attention until this particular interview is concluded. The broker will, of course, come to the assistance of his principal, when necessary, and do everything possible to bring about a sale. When the interview regarding this particular product is ended, it is courteous for the principal to retire and permit the broker to continue the interview regarding other items handled by him. He may request the principal to remain in the buyer's office during the ensuing sales conversation, but unless the invitation is sincerely given, the representative or the principal should not embarrass, by his unnecessary presence, either the broker or the buyer. Should he remain, he should under no circumstances interrupt the discussion that takes place regarding other items offered by the broker.

It should be unnecessary to add that the principal or his representative should hold in the strictest confidence any conversations he may hear between broker and buyer on such joint visits, but it is a fact that occasionally a principal will tell other buyers and brokers details of such conversations. Such breach of trust and abuse of confidence are inexcusable.

The Principal Must Adopt a Co-operative Attitude toward His Brokers.—The principal should never use a dictatorial attitude toward the broker. Being an independent agent, the broker justifiably resents operating under what he might consider a dictatorship, especially from one who obviously has had less selling experience in the market than he. The broker is in business to provide himself with an income and he can be assured of it only by making sales. Consequently, in most cases his judgment and opinion will be safe guides for the principal, and a co-operative rather than a dictatorial attitude will achieve the harmonious relationship that must exist for their mutual benefit.

Most brokers make every effort within reason to accommodate themselves to a principal's business policy, but when the broker knows from past experience that certain policies will not work with his buyers and will arouse resentment, it is his duty and obligation to acquaint the principal with such facts, and a frank and open discussion of such problems between them will generally lead to a solution satisfactory to both parties as well as to the buyers. Co-operation to the fullest extent between broker and principal is absolutely essential if the best services of the broker are expected; this co-operation must be on a friendly and equivalent basis because the broker is not a hired employee and will certainly resent any implications to that effect.

3. TRADE DATA, PRICE LISTS, BULLETINS

Frequently, after a broker has been appointed and provided with samples, price lists, and other data, he is apparently forgotten and months may elapse before he again hears from his principal. Under such negligence can the broker be expected to give this account his best attention? Few principals would employ traveling salaried salesmen and, after sending them out, completely forget or ignore their existence, and permit them to go on and on without making some effort to communicate with them from time to time; salesmen working under such conditions would have little incentive to work. When brokers are so neglected, they naturally assume that the principal has little or no interest in the sales they make.

There may be a temptation to forget some brokers if a principal has a limited production; when this has been completely sold by a few of the brokers, the others are often ignored. In such cases the principal has the moral obligation to notify all of his brokers that he has no more to sell, so that no time will be wasted offering merchandise to buyers when delivery cannot be effected.

Brokers cannot be expected to give their time and efforts to a principal who seemingly ignores such matters; if the principal receives no more orders from them, he can blame only his own indifference to the activities of his agents. The broker's attention will naturally be focused on the accounts which display interest in his work and which are always providing him with ammunition in the way of sales data, inspirational messages, selling helps and suggestions, and a conscious but inoffensive pressure for results.

Accordingly, after a broker has been appointed, he must be supplied constantly with such trade data and information as will help him in knowing the product and its sales potentialities. The principal must keep in regular and frequent communication with his brokers.

The Use of Bulletins.—Some producers prepare a printed bulletin which is mailed at regular intervals to each broker. These bulletins contain topics of sales interest, such as details of specific selling campaigns that have proved to be effectual, useful information about the product, trade trends, shop gossip, and any other data of a helpful or inspirational nature to arouse the broker's active interest and encourage his sales efforts.

There are other effective and less expensive methods of keeping in constant touch with brokers, one of the most popular of which is the multigraphed or mimeographed form of bulletin. Stencils for the latter can be prepared as quickly as a letter is typed. Special inexpensive stationery of a distinct color and form can be used. After the stencil containing the message has been prepared, mimeographed copies in any desired number can be produced in a few minutes in the principal's office.

Another new development is the photo-offset form of bulletin, which has the advantage not only of carrying the written message, but of being able to include half tones and other forms of illustration. This process lends itself to the use of the principal's letterhead, thus making the bulletins more characteristic than the mimeographed sheets. Photo-offset service is now available in almost every city. For large or small quantities the price is far below that of printing, and the finished work can be obtained in a few hours if required. Such bulletins can be mailed frequently and inexpensively to every broker.

The efficient sales manager will provide an addressograph machine for his office, so that the task of addressing envelopes will occupy only a few minutes. With such complete equipment, when it is important that information be communicated promptly to all brokers, the message for the stencil can be dictated, the forms put through the mimeograph machine, the envelopes addressed automatically on the addressograph, and within a short time the letters are all in the mail.

Bulletins Must Be Short and to the Point.—The subject matter communicated to brokers by the methods just described should always be concise and in such form that the busy broker will have time to read and digest it without wading through many irrelevant or unnecessary words. The brief message, right to the point, will be far more effective than the one burdened with verbiage. The average broker, in order to keep himself fully informed about trade conditions for the various types of products that are of most interest to him, is obliged to spend much of his time reading current trade publications and food-distribution service circulars, consequently he cannot be expected to devote much time to perusing long, wordy bulletins from all his principals.

When bulletins are used, they should be dated and numbered so that the broker can tell whether his files are complete and whether he has received every number issued. It is also imperative that a file of all the bulletins issued be kept in the office of the principal, so that any copy can be referred to in the event of necessity. The usual form is to have at the top of the first page the date and a heading such as "Bulletin No. 1."

Correspondence with Brokers Must Be Prompt and Timely.—In addition to the issuing of regular bulletins or other forms of communication between broker and principal, there is a necessary amount of regular dictated correspondence between them regarding specific matters that require special and immediate attention, such as requests for quotations, shipping instructions on specific orders, and the thousand and one other details connected with the business. Such letters must be answered as promptly as possible so that the broker will be subjected to no delays in his transactions with buyers for the principal's account. Personal letters from a sales manager or a principal commending on some particularly meritorious sale are always welcome to the broker. Personal letters analyzing a peculiar sales problem may be helpful to the broker, and although this matter of correspondence can be overdone, the principal will find it helpful to keep always in close and judicious contact with every appointed broker.

4. CREDITS

Every sale requires a credit consideration, consequently the matter of such policies and the attitudes of the credit department operated by the principal are of great importance to the broker, because he receives his remuneration only after a sale has been made and the order accepted for delivery by the principal. The salesman working on a salary does not suffer a monetary penalty if any order he has received is not shipped by the employer because of credit considerations. His income goes on regardless of the credit status of his customers. The broker, however, may have spent valuable time and effort in soliciting an order from a buyer only to learn that, after it was received by the principal, it could not be accepted. Under such circumstances the broker's time has been wasted.

The Credit Department and the Food Broker.—A principal is not legally required to accept and make delivery of an order for merchandise received from a broker, if the buyer, in his opinion, does not deserve credit courtesies. The broker has no authority over the credit department of the principal. It is the sole jurisdiction of the principal to decide to whom he will or will not sell, and on what terms. The broker must in every case accept the decision of the principal and is permitted to make no terms to any buyer without the expressed consent of the seller. If the broker offers a buyer special terms or any other extra considerations without the knowledge and consent of the principal, the broker can be held personally responsible for taking such liberties.

Since the broker's best selling efforts may prove profitless to him because of the delicate matter of credits, this particular subject is one that requires careful handling to insure a degree of fairness between principal and broker, and to preserve at all times the harmonious relationship that must exist between them.

It is only natural that a broker's ire is aroused when he learns that his principal refuses to accept and fill an order solicited from a buyer, who, as far as the broker is informed, has a record of meeting promptly all the invoices tendered him from other principals.

The Credit Department Must Co-operate with Brokers.—The credit department of a principal should never surrender its prerogatives to any broker, but for purposes of proper co-ordination and in order to maintain harmony, it should always co-operate fully with the broker and take advantage of his position to acquire confidential credit information regarding any buyer in his territory.

Since the food broker represents more than one principal and may be selling the products of a number of his principals to one buyer, he should be in a position to know the credit relations between this buyer and each of the principals. If the buyer is slow in making payment to any one principal, the broker is soon cognizant of it and will carefully watch him for evidences of further arrearage in meeting his obligations. The principal's credit department will have only its own experience with any particular buyer to influence its decisions, whereas the broker is familiar with the buyer's record for meeting his obligations with a great number of principals. Because of these circumstances a credit department should not take the same attitude toward a food broker that it takes toward a salaried personnel. The salaried salesman, like the credit department of his employer, has only his own experience to follow as to credit relations with any one buyer. The broker's experience with the buyers is a much broader one and should accordingly command respect.

Knowing that the local broker is aware of credit delinquencies when they occur, a buyer will be careful not to destroy his standing with any one principal lest he lose his credit privileges with other principals who employ the same broker. The broker accordingly fills the role of what might be designated as a "credit censor," and this is of the greatest importance to the trade in general because it has a tempering influence in preserving a certain credit stability.

The Broker Is Not a Collection Agency.—It is to be distinctly understood that under no circumstances is the broker to be considered in the light of a collection agency by any of his principals. His primary function is to make sales; he should never be expected to make collections on such sales. It is the right of the principal to accept or reject orders received from a broker if the buyer's credit responsibility is in question. If the order is accepted, the merchandise shipped and billed, it is the seller's job to make the collection. Few brokers will, however, refuse to interview a buyer who has delayed payment on an invoice. The broker is always anxious to protect the interests of his principals. Often a delayed payment is due to some misunderstanding on the part of the buyer, and the broker can quickly adjust the differences. Frequently the broker can collect more quickly than any other agency, owing to the dependence the buyer might have on him for merchandise from his other principals.

This brief outline of the broker's unique position in his trade relations with buyers and many principals, his trade contacts, and his role as a mediator, stresses the importance of the food broker in the grocery field and in this sense, apart from his valuable and inexpensive services in selling, the broker is fulfilling a function in preserving balance in the grocery trades field which could not possibly be assumed by any other agency.

The Importance of Supplying the Broker with Advance Credit Information.—There is another aspect to this important matter of credits, namely, the waste of a broker's valuable time resulting from his attempts to sell to a buyer whose credit is not acceptable to the principal concerned. To eliminate this waste of time, it is a good policy to ask a broker, upon appointment, to supply a complete list of all the potential buyers for the product in his territory. Many brokers have such lists constantly available for their principals. The list should then be referred to the credit department of the principal for investigation and the broker's opinions on doubtful accounts requested. After the credit status of each buyer on the list has been decided by the credit department, the broker should then be told to whom unlimited credit privileges will be extended, to whom credit will be strictly limited and to what amounts, and to whom shipments will be made only on a cash or sight-draft basis.

Possessing such complete information in advance, the broker will know exactly how to conduct himself in his sales interviews with each buyer. Such a procedure will save both the broker and the principal much embarrassment in their relationships with the many buyers and will serve to increase the efficiency of the broker in his sales activities. Under this method the credit decisions are not placed on the shoulders of the broker and he will not be working in the dark as far as the credit attitudes of his principals are concerned.

Many advantageous relationships between broker and principal have been disrupted by this important matter of credits; this is to be regretted, because the matter can be adjusted so easily through the proper degree of co-operation and a willingness to survey in advance the various credit cases in each broker's territory. This advance credit information is also helpful to the broker who has the authority of his principal to deliver merchandise from consigned stocks stored in public warehouses, from which prompt deliveries may be made to local buyers. Delays in the delivery of such warehouse stocks can be prevented when the broker knows the credit limitations established by his principal for each of his buyers.

CHAPTER 7

QUOTA SYSTEMS

Definition of Sales Quota.—A sales quota can be defined as a proportional part or share required to make up a certain quantity of total sales volume. If, for example, it is planned to sell one million units of a certain product, how many of them should be sold in each sales territory or division in order to dispose of the entire number in a given time? Or, putting it another way, what should be the proportional contribution in sales from each sales territory to achieve this goal?

Sales Quotas Are Helpful in Reaching Sales Objectives. In every selling campaign and in all sales activities the establishment of a quota is found to be helpful in attaining a predetermined objective. The existence of a quota also enables the producer to plan his production in advance so that it will be adequate for fulfilling the anticipated sales requirements.

Practically every efficient selling organization in America regularly resorts to quotas for planning its sales activities so that the selling efforts are conducted with a definite purpose in mind. Sales quotas are invariably used for guiding the work of a salaried sales force; and just as they have proved to be a stimulating power with salaried salesmen, so will they prove to be instrumental in helping food brokers attain a definite predetermined sales objective.

Investigations show that a number of producers of grocery products use some kind of quota system to measure and stimulate the sales efforts of their brokers, but as a rule insufficient attention is given to this important means of directing and guiding sales efforts toward an established goal.

Planned Business Operations.—Every business venture should be planned in advance, just as a building is laid out by the architect before construction is started, or just as a right of way must be surveyed and prepared before the construction of a railroad or a highway is commenced.

The planning fundamentals of a business activity can be resolved into a few simple elements, such as: 1. How much of the product can be made and at what production cost? 2. How much of the product can then be sold and what will be the selling costs? 3. Will the gross profit spread between the cost of production and the selling price give sufficient income to cover the administrative expenses and provide an interesting net profit? When these three fundamentals are studied and evaluated, they furnish the complete blueprint for a planned business operation.

It should not be difficult to estimate production costs in advance—in fact, no one should ever start producing unless such an estimate is prepared, since this furnishes the required data for the first element of a planned operation. Administrative expenses, which are generally of a fixed nature, can be closely computed in advance, so that this factor is not one of guesswork. The selling expenses are the most difficult to foretell, because of the many uncertainties surrounding these operations, particularly when salaried salesmen are employed; with the use of food brokers this uncertainty is reduced to a minimum and loses its hazardous character because the remuneration to them is fixed in advance and will always bear a definite and constant relationship to the sales volume.

Planning the entire business operation is therefore comparatively simple when food brokers are used as the sales media. No producer should ignore or neglect to plan his business objectives from year to year, since such planning presents a clearly defined picture of the objectives that can be attained if the planning is done seriously and every effort is made to follow the program.

The Basis for Establishing Sales Quotas.—Since the establishment of a sales quota is one of the elementary phases of a planned business operation, this will demand careful investigation and research, so that it will be well within the possibility of achievement.

The sales quota must always bear a direct relationship to the planned production, because in any well-balanced operation there should be a synchronization between production and sales, so that the one does not forge ahead of the other. It would not do, for example, to have facilities geared to produce one million units of a product and the sales department planning on total sales of half this quantity. On the other hand, it would be inadvisable to create a selling force capable of disposing of one million units if the existing production facilities were capable of turning out only one half that amount. In planned operations there must exist a balance between the capacity to produce and the capacity to sell.

Sales quotas cannot be established until the potentialities of a market are carefully studied in connection with the product to be sold, particularly if the product is a new one and is just being introduced. An intensive study of marketing conditions may result in the establishment of sales quotas that show the existing production facilities to be inadequate; or, on the other hand, the quotas may not be large enough to make economic production possible. These examples show the close relationship existing between sales quotas and production capacity. In the case of an established business one can be guided by past experience in the formulation of sales quotas from year to year; here the problem is relatively simple and, if sales quotas are used, they are for the purpose either of maintaining a satisfactory sales standard or for insuring from year to year a definite and steady increase in sales volume to capture the largest share of the market potentialities.

Sales quotas are of inestimable value in that they furnish a definite objective for accomplishment, and definite objectives are always a distinct help in any line of effort. If you give a man a rifle and do not provide him with a target to shoot at, he will be in a quandary. If he is provided with a distinctly marked target, he will know where to aim and will certainly try to hit the bull's-eye. A sales quota is a target for the salesman to aim at and hit. He is conscious of a certain objective; he knows what that objective is; accordingly his selling efforts will not be aimless. When the quota is attained, the salesman will have the pride of accomplishment. He will know that he has met expectations. Every man should have a goal, if he is to do his best work.

Brokers Welcome Sales Quotas.—Food brokers, although they are independent, welcome the opportunity to work under a sales quota system. Without one the broker can never tell when his sales are reaching the expectation of his principal. When the principal provides a sales quota, the broker is not left in the dark as far as his principal's desires are concerned. If the broker sells the quota, he knows that he has come up to expectations and that he has done his part in fulfilling the established marketing program. If his sales exceed the quota, he has the extreme satisfaction of knowing that he accomplished more than was anticipated. The sales quota gives both the broker and the principal the essential measuring rod of accomplishment. On the other hand, if the broker does not sell his quota he cannot help being cognizant of his failure to achieve the expected results; if this is not a motivating stimulus toward more intensive selling effort on his part, he does not possess that certain pride that brings success to a broker or any other salesman.

Computing the Sales Quota.—It is difficult for a principal to formulate and establish a quota for sales which will be beyond criticism. Many various and different factors enter into the computation: shall the quotas be established on past performance or on existing market potentialities? What are the actual potentialities of any product in any market and how can they be determined? If the potentialities are seemingly measured by methods considered as a fair index, to what degree have optimism and partiality figured in the computation?

Needless to state, there are many methods used by principals for establishing sales quotas. It would require an entire book to go into the intricacies of every system being used in America. Each of them may possess meritorious qualifications and may well serve the purpose for which it was intended, but it must be understood at the beginning that no one ever devised an absolutely perfect quota system. The perfect cannot be expected. Accordingly the goal should be a system that will appear as fair and equitable as possible and that will serve its main purpose—the establishment of a sales objective that can be attained with reasonable sales exertion. Emphasis must be placed on the attributes of fairness and equality. If the quotas are so unreasonably high that they could be attained only by superhuman efforts, they will be ridiculed and not taken seriously by the salesmen or food brokers. If, on the other hand, they are so low that they can be sold with very little effort, they are not being used advantageously for achieving their real purpose of stimulating sales energy to its highest and most productive point.

As a rule most of the sales quotas in use today are based on past performance, wherever records are available. A producer who has, for example, sold in one year a total of 300,000 cases of a product may desire, in the following year, to increase the sales to 400,000 cases. He accordingly establishes quotas for his selling agencies with the larger amount as the goal. He may employ sales quotas year after year, each year increasing the anticipated volume until he has reached a commanding position in his market, where the peak of sales will level out.

If the product to be marketed is a new one for which there are no precedents, quotas must be set up on market studies or on a hit-and-miss basis which may ultimately show the way for definite measurements of some value. The subject of marketing research for determining sales potentialities is a very broad one and has received extensive treatment in many available textbooks; consequently little attention will be given to it here.

Population As a Basis for Sales Quotas.—The most popular basis used for establishing quotas in the food industry is that of total population; when this basis is used, the type of population in a heterogeneous country like the United States must be taken into consideration. If a territory contains a total population of, let us say, 1,000,000 people—all native white Americans—should it be given the same quota as another territory with the same population but composed of 40 per cent Negroes, 40 per cent foreign born, and only 20 per cent native white? Again, what classes of the population are the potential customers—the upper, the middle, or the lower income groups? If the product is an expensive one, it may appeal only to the upper income groups; then the automobile registration figures or the telephone subscribers may be used as a basis.

From this it can be seen that there are many factors to be considered even when a simple element, such as population, is used as a basis for computing sales quotas; as a rule, the great majority of grocery products are in the popular-price classification and are designed to have a more or less universal appeal to everybody, so that the producer of such items needs to pay little attention to class groups. His problem of computing quotas is accordingly simple, except where large foreign populations of different taste habits are involved.

The author, in preparing quotas for the sale of a large line of popular-priced canned meats, has always used total population figures as a basis, regardless of the type of population, on the assumption that the line was large enough and contained a sufficient variety of items to appeal to almost every class of purchaser; on the other hand when he established a quota system for a large producer of canned vegetables, the figures were based on past performance for each sales district. No hard and fast rules can be used for every product or line of products, because each case demands separate treatment. Both of these methods produced the desired results, and the proof that they were properly devised lay in the fact that they worked to satisfaction, although based on different principles. They were further differentiated in the fact that for the canned meats the quotas were established in terms of dollars, regardless of item, while the quota for the canned vegetables was expressed in terms of cases as the sales unit for each of the 30 items packed by the canner.

Sales Quotas Based on Units or Dollars.—Whether sales quotas are to be given in terms of units or dollars must be decided by the producer; his decision must be influenced by the nature of the product. In the grocery trades most quotas are given in terms of units such as cases, bags, barrels, or whatever the packaging may be. The advantage of using units as a measurement lies in the fact that they do not fluctuate, whereas a dollar valuation increases as prices advance and decreases as prices decline; for example, 10,000 cases of an item may be sold in one year for $30,000 and the next year for $35,000. In each instance 10,000 cases were sold, but the dollar value had changed.

The dollar basis possesses the advantage of requiring less detail for computing the quotas, and it can be used advantageously when there are no production limitations, such as poor crops, which have a great influence on the market value of the pack. Sales quotas on products that fluctuate widely in price should be expressed in units. If the item is rather staple and the production costs do not vary to a great degree and the selling prices are fairly constant, the dollar measurement can be used.

An Example of a Simple Sales Quota Based on Units.—As an illustration of the simplest type of computing sales quotas, let it be assumed that the producer of a grocery specialty desires to use sales quotas for his six brokers. The quota period will be for one year, the standard term usually employed. This principal has facilities for producing

100,000 units, which in this instance may be a standard case of 24 packages of his product; the quotas, therefore, will be given in terms of cases. Total population will be used as a basis for figuring. The quotas for each of the six brokers would be computed according to the following simple pattern:

Broker	Population of area	Percentage of total population	Number of cases allocated
A	1,000,000	33.33	33,333
B	500,000	16.67	16,667
C	700,000	23.33	23,333
D	300,000	10.00	10,000
E	400,000	13.33	13,333
F	100,000	3.34	3,334
Totals	3,000,000	100.00	100,000

It can be seen from this example that the quota for each broker is easily computed and that each receives his proportional share based on the population of his territory and the total number of cases scheduled to be sold in all areas during the year. If each broker sells his quota in the allotted time, the principal will have disposed of his total production and completely reached the objective planned by the quota system.

Quotas Based on Past Performance.—A much more complex system was the one employed by a packer of canned vegetables, fruits, and grocery specialties, and also expressed in terms of units with a separate quota for each product. The production schedule called for a specific total number of cases of each item for the period of one fiscal year. Sales quotas were then established for each product in terms of cases for each sales territory. In this particular instance there were 45 sales territories and each was given its proportional quota for each of the many items. The combined quotas for all these territories equaled the total anticipated sales objective for the entire operation, which in turn balanced with the production schedule. The sales quotas for each product were based on previous experience with each in the various sales territories.

For example, in computing the quotas for lima beans, the sales statistics for the three previous years were taken into consideration. It was found what percentage of the total national sales of lima beans for each of these years was made in each territory. If, for instance, Territory No. 12 used 5 per cent of all the lima beans sold nationally by the company in 1936, 7 per cent in 1937, and 4 per cent in 1938, the average for the three years would be 5⅓ per cent; accordingly the quota allocated to that area for the year 1939 would be 5⅓ per cent of the total anticipated pack for that year. If it was planned to sell nationally 210,000 cases of the beans in 1939, then 5⅓ per cent of that number, or 11,200 cases, would be allocated to Territory No. 12 as its lima-bean quota for the year. This explains more fully what is meant by computing the quotas on past experience. Just as this quota was figured for lima beans, so were the quotas for all the other items in the line computed and assigned to each of the 45 sales territories.

Forms for Recording Actual Sales As Compared with Quotas.—The salesman in each territory was provided at the end of each month with a record of all the sales he had made during the month. This record, prepared in the main office of the company, showed the quotas as compared with the actual sales for the period. The special form used for this purpose by this particular packer is shown in Exhibit 6.

An examination of this form will show that it contains all the detailed and essential data required to follow the progress made by the salesman in selling the quotas set up for each item. Actual sales for the month as compared with the quotas for the month are shown in the report, as well as the cumulative quota from the beginning of the quota period and the actual cumulative sales for the same time. The

Exhibit 6

Territory: Baltimore Territory No.: 19 Month: November Year:____

Item	Quota for year	Current month		Cumulative	
		Quota	Orders received	Quota	Orders
Catchup	6,700	536	46	5,896	1,133
Chili sauce	2,000	160	68	1,760	1,222
Oyster C. S.	950	76	114	836	1,215
Peas, June	......	.....	....	......	337¾
Peas, Sweet	......	.....	....	......	324
Peas, Early	425	34	42	374	437
Peas, Sweet F. K.	425	34	3½	374	1,105
Beans, Lima	110	9	1½	97	97
Beans, Red	55	4	....	48	129
Pork and beans	160	13	....	141	86
Beans, Wax	50	4	68½	44	383¾
Beans, Refugee	270	22	2½	238	386
Corn, Sweet	55	4	6	48	125
Corn, C. Gent	110	9	3	97	145
Corn, G. Bant	110	9	....	97	46½
Tomatoes	270	22	60	238	263
Tomato puree	535	43	....	471	117
Tomato soup	160	13	55	141	217
Pumpkin	30	2	....	26	9
Squash	160	13	....	141	3
Spinach	......	.....	....	......	152½
Sauerkraut	535	43	....	471	1,124
Salad dressing	55	4	....	48	3
Vinegar	25	2	....	22	17
Spaghetti	110	9	5	97	46
Beets	320	26	514½	282	2,858½
Succotash	50	4	....	44	5½
Strawberries	......	.....	....	......	2½
Red raspberries	......	.....	....	......	4
Black raspberries	30	2	....	26	6
Cherries	330	26	202½	290	594
Pears	215	17	5	189	131¾
Apples	275	22	....	242	97
Apple sauce	265	21	183	233	2,682¼
Preserves	125	10	....	110	4
Sauerkraut juice	......	.....	5	......	5
Total	14,910	1,193	1,387½	13,121	15,514

cumulative quotas and actual sales should always be shown on any such monthly record because the cumulative figures are always of more importance, as far as final achievements are concerned, than the sales figures for any one of the twelve months.

Monthly Statements of Quotas and Actual Sales.—As indicated heretofore, most sales quotas are prepared for the period of one year. To make a quota system work effectively it is highly desirable to prepare monthly statements showing how actual sales are approximating the quotas. These statements show what progress is being made from month to month in attaining the sales objective established by the quota for the entire year. They give frequent measurements of progress and show where additional sales pressure must be applied to keep up with the program.

How Seasonal Variations in Sales Will Affect the Monthly Quota Statements.—Monthly statements, however, in which quotas are recorded should not be prepared unless seasonal variations in sales for each particular item are taken into consideration. For example, if the yearly quota for canned peas is established at 240,000 cases, the proportional quota for each month should not be one-twelfth of that number, or 20,000 cases, because this item is not sold at a uniform rate throughout the year. In summer the presence of fresh peas on the market slows down the sales of canned peas to the consumers. Most food items are subject to such seasonal variations, which must be taken into consideration when the sales quota for a full year is broken down into what can be described as "proportional monthly" quotas for each of the twelve months. These seasonal variations can be computed from records of past experience by comparing the sales made each month with the total sales for the year.

Seasonal Variations in Canned-meat Sales.—Past experience in the sales of canned meats indicates that of the total sales made during any one year the approximate monthly average will be about as follows:

5	per cent for January
5	per cent for February
5	per cent for March
10	per cent for April
10	per cent for May
10	per cent for June
12½	per cent for July
12½	per cent for August
10	per cent for September
10	per cent for October
5	per cent for November
5	per cent for December
Total 100	per cent

Using this experience table for preparing a monthly quota and sales record for a food broker with a sales quota of $10,000 for the year, the monthly quotas would be as follows:

	Monthly quota	Per cent of total	Cumulative quota
January	$ 500.00	5	$ 500.00
February	500.00	5	1,000.00
March	500.00	5	1,500.00
April	1,000.00	10	2,500.00
May	1,000.00	10	3,500.00
June	1,000.00	10	4,500.00
July	1,250.00	12½	5,750.00
August	1,250.00	12½	7,000.00
September	1,000.00	10	8,000.00
October	1,000.00	10	9,000.00
November	500.00	5	9,500.00
December	500.00	5	10,000.00
Totals	$10,000.00	100	

The same experience table and the same percentages could have been used had the quota been established in terms of units instead of dollars. The monthly quota report shown in Exhibit 6 for the sales of canned fruits, vegetables, etc., took into consideration the seasonal variations for each of the many items.

The Preparation of the Quota Key Sheet.—To facilitate the preparation of so much detail when a number of different products are concerned, a key sheet for every item is set up which is consulted when the monthly statements of quotas and sales are prepared for each of the many sales territories or divisions.

An example of such a key sheet, for a pack of canned corn, is shown in Exhibit 7. In this particular one, ten territorial divisions are considered and the percentage of the total sales quota assigned to each appears in the narrow column following the number of the territory. The seasonal variations are shown at the top of each column under the separate months. Simple calculations are then made to determine how many cases of the total pack of 500,000 cases will constitute the quota for every sales territory for each of the months. A similar key sheet is prepared for each of the other items in the line.

The Establishment of Sales Quotas for a New Product.—It is difficult to establish fair sales quotas if the product to be sold is new to the market with no precedents to follow. The author was confronted with this problem in preparing quotas for a new line of canned meats. This was a trademarked line and no past sales experiences were available. It was decided to use the sales dollar measurement, regardless of items sold, in order to make the computation of the quotas as simple as possible. In this particular system everything was ignored except the total amount of sales made by each broker in terms of dollars and cents.

For the first year, as an experiment, the quotas were based on sales of $4.00 per 1,000 of total population in each broker's territory. If the broker operated in a territory containing a total population of 1,000,000 his quota was placed at $4,000 for the year in total sales of all canned-meat items. If a territory contained a population of 2,500,000 the quota was placed at $10,000. This was done with every one of the 90 brokerage areas. In an earlier chapter it was explained that county lines are advantageous as a means for delineat-

EXHIBIT 7

Item: Canned Corn   Sales Quota: 500,000 cases   Year: 1939

		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Seasonal variation	Quota	9%	8%	7%	6%	4%	3%	4%	6%	10%	12%	15%	16%	100%
Case quota per month	Per cent	45,000	40,000	35,000	30,000	20,000	15,000	20,000	30,000	50,000	60,000	75,000	80,000	500,000
Territory 1.....	5	2,250	2,000	1,750	1,500	1,000	750	1,000	1,500	2,500	3,000	3,750	4,000	25,000
Territory 2.....	8	3,600	3,200	2,800	2,400	1,600	1,200	1,600	2,400	4,000	4,800	6,000	6,400	40,000
Territory 3.....	10	4,500	4,000	3,500	3,000	2,000	1,500	2,000	3,000	5,000	6,000	7,500	8,000	50,000
Territory 4.....	15	6,750	6,000	5,250	4,500	3,000	2,250	3,000	4,500	7,500	9,000	11,250	12,000	75,000
Territory 5.....	9	4,050	3,600	3,150	2,700	1,800	1,350	1,800	2,700	4,500	5,400	6,750	7,200	45,000
Territory 6.....	12	5,450	4,800	4,200	3,600	2,400	1,800	2,400	3,600	6,000	7,200	9,000	9,600	60,000
Territory 7.....	10	4,500	4,000	3,500	3,000	2,000	1,500	2,000	3,000	5,000	6,000	7,500	8,000	50,000
Territory 8.....	12	5,450	4,800	4,200	3,600	2,400	1,800	2,400	3,600	6,000	7,200	9,000	9,600	60,000
Territory 9.....	8	3,600	3,200	2,800	2,400	1,600	1,200	1,600	2,400	4,000	4,800	6,000	6,400	40,000
Territory 10....	11	4,950	4,400	3,850	3,300	2,200	1,650	2,200	3,300	5,500	6,600	8,250	8,800	55,000
	100	45,000	40,000	35,000	30,000	20,000	15,000	20,000	30,000	50,000	60,000	75,000	80,000	500,000

ing a broker's territory because the population of every county in every state is usually published in atlases. It was accordingly a simple matter to ascertain the exact population for each broker since the territories were assigned in this manner; with these statistics the quota for each broker was computed by multiplying the population in terms of thousands by $4.00, the quota rate.

Results Achieved from the Canned-meat Quota System. At the end of the first year, seven of the brokers had sold 100 per cent or more of their respective quotas. The combined population of their territories was then divided into their total sales. It was thus found that their total sales had averaged $5.45 per 1,000 population, which was $1.45, or 38¼ per cent, more than the quota rate of $4.00 established for this test period. Some of these brokers during the year had had sales that averaged as high as $8.00 per 1,000 population and some had averaged only slightly better than the $4.00 standard; but their combined average was desired. From this one year of experience, the quota for the second year for all brokers was established at $5.45—the average reached by the seven most successful brokers during the first test year.

At the end of the second year, 16 brokers had sales in excess of this quota. Again, by a comparison of the total population of the territories of these 16 brokers with their combined total sales for the year, it was found that their sales averaged $6.66 per 1,000 population. This new and higher figure was then used as the basis for computing the quotas for all brokers for the third year. It can be seen from this procedure that the brokers were actually making their own standards for a quota from year to year, instead of being subjected to some arbitrary standard established by the sales manager. The purpose of any quota system is to stimulate sales. The proof that this particular method, simple as it was, of computing quotas had this desired effect is shown by the averages of the "quota-making" brokers which reached $8.23 per 1,000 population in the fourth year,

$11.01 in the fifth year, and better than $12.50 in the sixth year.

This system of computing quotas eliminated any criticism of unfairness, particularly when at the end of each year a listing of the brokers who made their quotas showed that they were scattered all over the United States, proving that, with this particular line of canned meats, local economics, population, or geographic factors did not have a great influence on the sales. If the results had indicated that these factors were responsible for retarding the sales in some areas and increasing them in others, allowances would have been necessary in computing quotas to equalize the varying potentialities.

In this particular method of computing quotas, no broker was ever penalized for his success. Regardless of previous sales, the same dollar basis was used each year for all the brokers. For example, a broker may have had sales averaging $15.00 per 1,000 population in his territory during the year when the quota was set at $8.33; the following year, when the quota was raised to $11.01, he, as well as all others, was placed on the same basis.

The philosophy underlying this equalization is that with a line supported by no consumer advertising, it is just as difficult to maintain a sales volume as it is to create one, and it would be unfair to keep on increasing any successful broker's quota from year to year to a degree different from that employed with the others, for the sole purpose of having each year's quota always in excess of that of the previous year. This would not only be penalizing the broker for his previous successes, but would have the result of destroying all the universal standards since, ultimately, each broker would be working on a different standard and each would have ample grounds for the complaint that equality and fairness were not being used in the establishment of quotas.

The method employed to record the sales made by each broker was very simple. Pads of standard-ruled, seven-column analysis paper were used. One page of this paper was devoted to each broker and the whole bound together in a loose-leaf binder. Each month the actual sales made by each broker were posted on his particular page. These figures were easily obtained from the brokerage statements sent to each broker at the end of the month accompanying his commission payment. The monthly and yearly quotas for each broker were shown on the page for each particular one, a specimen of which is shown in Exhibit 8.

EXHIBIT 8

BROKER: John Jones Brokerage Co.
AREA: Norfolk, Va.
YEAR: 1939 SALES QUOTA: $10,000.00

	Per cent	Quota	Actual sales	Cumulative quota	Cumulative sales
January..........	5	$ 500.00	$ 421.10	$ 500.00	$ 421.10
February.........	5	500.00	560.73	1,000.00	981.83
March...........	5	500.00	392.80	1,500.00	1,374.63
April.............	10	1,000.00	960.75	2,500.00	2,335.38
May.............	10	1,000.00	1,500.50	3,500.00	3,835.88
June.............	10	1,000.00	1,100.75	4,500.00	4,936.63
July.............	12½	1,250.00	1,645.12	5,750.00	6,581.75
August...........	12½	1,250.00	1,492.70	7,000.00	8,074.45
September........	10	1,000.00	967.15	8,000.00	9,041.60
October..........	10	1,000.00	1,092.85	9,000.00	10,134.45
November........	5	500.00	467.92	9,500.00	10,602.37
December........	5	500.00	451.20	10,000.00	11,053.57

At the end of the three-month period a statement was sent to each broker showing his sales for the period as compared with his quota. A letter accompanied this statement offering either congratulations or constructive suggestions on his sales performance in the period. By this means the brokers were all kept alert with the knowledge that their sales efforts were under constant observation. When a broker sold his quota, he was immediately placed on what was known as the "Honor Roll," and recognition of his accomplishment was made to all his fellow brokers through a special bulletin issued by the sales manager.

In the canned-meat example cited it was found, after a time, that although the increased dollar basis used each succeeding year was fair to all the brokers who handled the products for the same number of years, it could not justly be used for brokers established at later dates in virgin territories. To eliminate this unfairness the plan was modified so that the quota given to newly appointed brokers for the first year was based on sales of $5.45 per 1,000 population, which was the original rate established by the quota-making brokers during the first year the quota system had been put into effect. With the standards already established by the older brokers, the quotas for the new brokers were based on the experience table of $5.45 for the first year the broker handled the account, $6.66 for the second year, $8.23 for the third year, and so on; in this way the quotas took into consideration not only the population of a broker's territory, but the length of time he had represented the principal in that territory. If brokers were changed in any one territory the newly appointed broker inherited his predecessor's quota.

There Are Many Methods for Computing Quotas.—These examples of computing quotas have been given as illustrations of how some quota systems are formulated and computed. There are many other methods used for calculating quotas. Each product may be subject to some differentiation that will require modifications or amplifications in the technique generally used for setting up a quota system. The past history of the business enterprise should also be taken into consideration when quota systems for stimulating sales are introduced. The best system is the simplest one that will bring about the desired results. If the principal has never used a quota system, his first attempt should be as simple as possible. With increased experience the system can be extended in detail so that it will better answer the requirements of a growing business. If the product to be marketed is a new one for which there are no precedents to follow, the basis for calculating the quotas can be arbitrarily fixed on some fair computation; the basis can later be amended as experience shows the necessity for such changes. Whatever the basis used, it is always imperative that it be fair and equitable to all brokers alike.

Rewards for Attaining Sales Quotas.—Whether or not a premium or reward of some kind should be given to a broker who meets his sales quota is a frequent subject of controversy between principals who work with quotas. In discussing this matter with brokers scattered all over the United States, the author has reached the conclusion that without a reward for accomplishment the best of quota systems will soon lose its driving force. Everybody has a human desire to win something, and it is only natural that preference be expressed for a material reward rather than for kind words.

The policy of rewards, as far as the canned-meat quota system cited is concerned, has been to pay a bonus brokerage of 1 per cent on all sales made in excess of 75 per cent of the quota. For example, if a broker has a quota of $20,000 and his sales total $24,000, he receives a bonus of 1 per cent on $9,000, which is the difference between $15,000 or 75 per cent of the established quota and $24,000, the total of his actual sales. In this case the bonus brokerage would amount to $90. The regular brokerage on this line of canned meats is 5 per cent. At the end of the year this particular broker would thus receive in commissions 5 per cent of $24,000 or $1,200, plus the bonus of $90, making a total remuneration of $1,290. This is equivalent to 5.375 per cent in total brokerage; considered from this angle, the slight additional expense is well warranted in view of the results achieved. Such a reward has the stimulating effect of motivating every broker to make his quota; as soon as he passes a 75 per cent accomplishment of it, he begins to reap a reward that will increase as his sales increase over the established quota.

Some principals pay a flat-sum bonus such as $50 or $100, or even more, to the brokers who sell their quotas;

with such a system the broker receives no additional reward for exceeding the quota, regardless of the total reached, and once the quota is attained there is no further incentive to sell more. Other principals pay so much a unit on all sales made in excess of the quota; for example, if the quota is 20,000 cases of a product, a definite sum is paid to the broker as a bonus on all the cases sold in excess of this amount. The bonus in such instances may be five or ten cents a case, in addition, of course, to the regular brokerage he receives on all his sales. Occasionally the competition between brokers for selling the quotas of one principal is quite keen and is regarded in the light of a game in which a silver or gold trophy is given by the principal to the winning broker. All kinds of scoring methods are used for the purpose of keeping the broker's interest awake and arousing his ambition to produce results in competition with the other men working on the account in their respective areas.

Regardless of the reward offered, once the standards are established, no subterfuge should ever be used by a principal for the purpose of evading the payment of the premium promised. Brokers frequently complain that, after they have sold their quota with the promise of a bonus, it is never paid and that some principals employ every ingenuity to make excuses for such omissions. Such practice on the part of a principal is indefensible and will result not only in losing the broker's interest in any quotas the principal may thereafter establish but in the loss of the broker's good will. This good will must always be retained if the broker's best selling efforts are desired.

Essential Qualifications for an Equitable Sales Quota.—Again brokers frequently complain that some of the sales quotas given to them are too high to be attained; this occasions a loss of genuine interest in the quota. If the principal intends to use quotas as a means of stimulating sales effort, he must be certain that his system comprises the following essential qualifications:

1. It must be fair and equitable to all brokers alike.

2. It must be computed on a sound and logical basis.
3. It should not penalize the broker for previous selling accomplishments.
4. A material reward should be given to the brokers who sell or exceed their quota.
5. The quota calculations should be simple and easily understood by all the brokers.
6. Accounting methods should be installed for keeping the necessary sales and quota records so that brokers who meet their quotas will receive the proper recognition.

Grocery Buying Habits Will Influence Sales Quotas.—Since this volume has been prepared especially for the grocery trades and since population figures are generally used for computing quotas in this industry, it will be interesting to anyone who has a liking for statistics to make a study of the grocery-buying habits of the people in the various states of this country. Such data can be procured from a number of sources through statistical records that are available. One very valuable source of such statistics in the field is the Atlas of Wholesale Grocery Trading Areas. This book was published in 1938 by the Marketing Research Division of the U. S. Department of Commerce. From it some interesting facts can be procured regarding the sales of grocery products in the various states. From these data a special recapitulation has been prepared for this volume to show the wide variations in retail purchasing power at the grocery stores in the various states on a per capita basis. This recapitulation is shown in Exhibit 9.

This exhibit includes each of the 48 states and the District of Columbia. The total population of each state is given, together with the number of retail grocery stores in each. These state figures include retail grocery stores without meats and combination stores selling both groceries and meats. The Atlas of Wholesale Grocery Trading Areas gives the total annual net retail sales of these stores. If these sales figures are divided by the population figures for each state, it is possible to obtain the average per capita

EXHIBIT 9.—SUMMARY OF RETAIL GROCERY STORES, NET ANNUAL GROCERY SALES, GROCERY SALES PER STORE, GROCERY SALES PER CAPITA, BY STATES

State	Population	Net annual grocery sales, thousands of dollars	Retail grocery stores	Average annual sales per store	Average annual sales per capita	Per capita sales, per cent from average
Alabama	2,646,248	$ 69,538	6,539	$10,634	$ 26.28	− 49.2
Arizona	435,573	23,440	1,139	20,579	53.81	+ 4.0
Arkansas	1,854,482	49,447	4,864	10,166	26.66	− 48.5
California	5,677,251	409,202	16,238	25,200	72.08	+ 39.3
Colorado	1,035,791	60,992	2,670	22,843	58.88	+ 13.8
Connecticut	1,606,903	133,190	6,198	21,489	82.89	+ 60.2
Delaware	238,380	15,517	995	15,595	65.09	+ 25.8
District of Columbia	486,869	57,222	1,716	33,346	117.55	+127.2
Florida	1,468,211	90,468	5,397	16,763	61.62	+ 19.5
Georgia	2,908,506	97,998	9,381	10,446	33.69	− 34.8
Idaho	445,032	22,892	826	27,714	51.44	− 0.6
Illinois	7,630,654	374,325	20,724	18,062	49.06	− 5.2
Indiana	3,238,503	152,946	9,835	15,551	47.23	− 8.7
Iowa	2,470,939	116,996	5,773	20,266	47.35	− 8.5
Kansas	1,880,999	95,432	4,807	19,853	50.73	− 2.0
Kentucky	2,614,589	79,902	7,650	10,445	30.56	− 40.9
Louisiana	2,101,593	57,379	6,894	8,323	27.30	− 47.3
Maine	797,423	58,895	2,856	20,621	73.86	+ 42.7
Maryland	1,631,526	90,056	6,029	14,937	55.20	+ 6.7
Massachusetts	4,249,614	347,669	14,423	24,105	81.81	+ 58.1
Michigan	4,842,325	254,707	13,431	18,964	52.60	+ 1.7
Minnesota	2,563,953	130,170	6,120	21,270	50.77	− 1.9
Mississippi	2,009,821	33,728	4,699	7,178	16.78	− 67.6
Missouri	3,629,367	184,891	10,138	18,237	50.94	− 1.5
Montana	537,606	32,568	1,335	24,396	60.58	+ 17.1
Nebraska	1,377,963	64,446	2,837	22,716	46.77	− 9.6
Nevada	91,058	8,325	221	37,670	91.43	+ 76.7
New Hampshire	465,293	41,280	1,684	24,513	88.72	+ 71.5
New Jersey	4,041,334	264,142	14,481	18,241	65.36	+ 26.3
New Mexico	423,317	13,861	1,081	12,822	32.74	− 36.7
New York	12,588,066	784,708	36,822	21,311	62.34	+ 20.5
North Carolina	3,170,276	85,959	8,029	10,706	27.11	− 47.6
North Dakota	680,845	22,803	1,266	18,012	33.49	− 35.3
Ohio	6,646,697	385,066	18,594	20,709	57.93	+ 12.0
Oklahoma	2,396,040	89,450	5,768	15,508	37.33	− 27.9
Oregon	953,786	59,663	2,659	22,438	62.55	+ 20.9
Pennsylvania	9,631,350	544,180	32,307	16,844	56.50	+ 9.2
Rhode Island	687,497	52,942	2,537	20,868	77.01	+ 48.8
South Carolina	1,738,765	53,231	5,147	10,342	30.61	− 40.9
South Dakota	692,849	22,364	1,276	17,527	32.28	− 37.6
Tennessee	2,616,556	95,982	7,212	13,309	36.68	− 29.1
Texas	5,824,715	258,905	16,672	15,529	44.45	− 13.7
Utah	507,847	21,615	993	21,767	42.56	− 17.7
Vermont	359,611	22,485	1,044	21,537	62.53	+ 20.8
Virginia	2,421,851	91,031	6,782	13,422	37.59	− 27.3
Washington	1,563,396	94,221	4,577	20,586	60.27	+ 16.5
West Virginia	1,729,205	67,542	4,554	14,831	39.06	− 24.5
Wisconsin	2,939,006	154,643	7,293	21,204	52.62	+ 1.7
Wyoming	225,565	14,147	467	30,293	62.72	+ 21.2
Totals	122,775,046	$6,352,561	354,972	$18,701	$ 51.74	

grocery purchases made in each of the states. By dividing these same sales figures by the number of retail stores located in each state, the average net annual sales per store is obtained.

The summary in this recapitulation as shown in Exhibit 9 gives the total population of the United States, including the District of Columbia, as 122,775,046, which approximates the 1930 census figures. The number of retail grocery stores is given as 354,972, and their total net annual sales as $6,352,561,000. With these figures it can be shown that the average annual purchase for the United States at these retail stores amounts to $51.74 per capita. From this it can be deducted that an average family of five persons will spend annually the sum of $258.70 in grocery stores. The summary also shows that for the entire United States the average net annual sales for each grocery store is $18,701.

When the per capita grocery purchases in each state are so calculated, it will be seen that there appears to be a great variation in purchasing power or habits among the various states. This may be due to the type of population, because more grocery store purchases can be expected in urban centers than in rural sections, where the farmer produces for his own consumption many items that the city dweller must purchase from his grocer. However, be that as it may, the table shows that the average grocery purchases per capita amount to as much as $91.43 for Nevada and as little as $16.78 in Mississippi. The per capita purchases in Nevada are 76.7 per cent above the average for the entire United States; in Mississippi they are 67.6 per cent under that average. These findings should be taken into consideration by a producer who is marketing through grocery stores; if quotas are to be based on population figures, the buying habits of the population should be taken into account. For example, if a sales quota is based on sales of $10 per year per capita, this figure should be reduced by half for Alabama, since the average per capita sales in grocery stores of that

Exhibit 10.—Summary of All Stores Selling Food, Total Food Sales, Percentage of Total Sales Made by Independent Grocery Stores, by Chain Groceries, and by All Other Retail Stores Selling Foodstuffs

State	Total retail food	Total sales, thousands of dollars	Per cent, independent stores	Per cent, chain stores	Per cent, all others
Alabama	7,485	$ 74,814	62.8	29.1	8.1
Arizona	1,350	25,313	63.2	28.8	8.0
Arkansas	5,455	52,047	76.3	18.0	5.7
California	26,849	561,468	40.9	31.3	27.8
Colorado	3,601	70,230	56.6	30.1	13.3
Connecticut	8,658	164,037	42.4	38.3	19.3
Delaware	1,840	20,742	45.5	29.1	15.4
District of Columbia	2,343	70,706	36.9	43.6	19.5
Florida	7,214	103,431	56.9	30.0	13.1
Georgia	11,127	108,034	60.5	29.5	10.0
Idaho	1,191	27,000	58.8	24.9	16.3
Illinois	32,287	521,889	37.1	34.4	19.5
Indiana	12,472	177,558	51.8	33.9	14.3
Iowa	9,456	136,880	65.3	19.8	14.9
Kansas	6,311	105,240	71.1	19.3	9.6
Kentucky	9,161	88,720	56.8	32.8	10.4
Louisiana	9,196	69,929	63.2	18.5	18.3
Maine	3,951	68,464	56.9	28.5	14.6
Maryland	9,619	126,075	42.8	28.3	19.9
Massachusetts	21,573	451,611	38.4	38.2	23.4
Michigan	19,296	322,026	41.3	37.5	20.2
Minnesota	8,538	169,252	63.4	13.0	23.6
Mississippi	5,174	35,230	74.2	19.8	6.0
Missouri	14,054	212,256	58.8	27.9	13.3
Montana	1,756	37,963	67.4	18.3	14.3
Nebraska	3,844	73,913	66.0	20.5	13.5
Nevada	313	9,846	....	84.5	15.5
New Hampshire	2,195	48,379	52.8	31.9	15.3
New Jersey	28,066	423,175	31.4	30.7	37.9
New Mexico	1,224	14,957	69.5	21.2	9.3
New York	80,430	1,385,122	30.9	25.5	43.6
North Carolina	9,217	92,083	61.6	30.9	8.5
North Dakota	1,709	26,073	69.1	17.6	13.3
Ohio	29,683	503,663	43.4	32.7	23.9
Oklahoma	6,575	95,037	72.1	21.4	6.5
Oregon	4,086	77,154	53.8	22.9	23.3
Pennsylvania	32,307	544,180	41.0	36.5	22.5
Rhode Island	3,503	67,512	39.0	39.1	11.9
South Carolina	5,799	57,631	67.4	23.6	9.0
South Dakota	1,821	25,379	68.3	19.4	12.3
Tennessee	8,452	106,371	61.4	28.3	10.3
Texas	20,488	284,217	70.3	20.4	9.3
Utah	1,498	26,033	56.5	26.2	17.3
Vermont	1,360	25,063	57.1	32.4	10.5
Virginia	8,588	106,587	50.0	35.0	15.0
Washington	6,827	123,012	53.7	21.9	14.4
West Virginia	6,195	77,089	50.4	35.1	14.5
Wisconsin	10,193	198,893	59.8	17.5	12.7
Wyoming	669	16,080	64.3	23.7	12.0

state are 50 per cent under the average for the nation. Likewise, the quota of $10 should be increased by 58.1 per cent when applied to Massachusetts, since the people of that state make annual purchases at grocery stores of $81.81, which is 58.1 per cent above the average for the nation.

Another important statistical summary by states appears in Exhibit 10. In this exhibit the population of each state is given together with the total number of all retail stores selling food and grocery items. The number of retail stores in this summary is greater than in Exhibit 9, because in the latter only retail grocery stores are given; those enumerated in Exhibit 10 include all stores that sell food products, including grocery stores, delicatessen stores, butcher shops, specialty stores, etc. Exhibit 10 shows how the total sales of food products are divided among independent grocery stores, chain stores (four stores or more), and all other stores selling food products.

BUDGETED SELLING COSTS AND PLANNED OPERATIONS

In a planned business operation, sales quotas are associated with the matter of budgeting the selling expenses. The former is an estimate of sales volume and the latter a means of limiting the selling expenses to a fixed or set amount. Since the cost of making sales must be controlled and kept within definite limits to insure profitable operation, the sales expense budget is just as important as the sales quota.

When salaried salesmen are employed, the preparation of an expense budget involves a detailed estimate of all the amounts that will be needed for salaries, traveling expenses, and other items directly connected with the selling efforts, so that the grand total of these will not exceed a specified sum, which will in turn bear a definite relationship to the anticipated sales volume. For instance, if the gross profit on an item will permit a selling cost not exceeding 10 per cent of the selling price, the budget must limit the selling expenses to a tenth of the anticipated sales volume. If the sales quota is $1,000,000, the sales budget cannot exceed $100,000. From this it can be seen that the selling costs will be fixed in advance and these sums will be expended according to the program. But will the anticipated sales, on which this budget is based, materialize? If the actual sales fall short of the anticipated volume, then the selling costs will be inversely increased and the net profits diminished accordingly. The budget will keep the selling costs only within the estimate of 10 per cent if the sales objective in full is attained. When salaried salesmen are employed, the selling costs, with or without budgeted control, will increase or decrease, depending on the actual sales volume, and there can be no positive and definite relationship established between sales volume and percentage selling costs.

Selling Costs with Food Brokers Are Fixed.—When a broker is used in the selling program, there is a definite relationship between the sales volume and the selling costs, because his remuneration has been fixed with the principal before the sales are actually made. If the anticipated sales volume is $1,000,000, and the brokerage is fixed at 5 per cent, the selling costs, as far as brokers are concerned, cannot exceed $50,000. If the sales volume exceeds $1,000,000, the selling costs in brokerage will then, of course, exceed $50,000, but since these selling costs are formulated to permit a profit to the producer, he will enjoy the same relative profit on sales made in excess of the quota, and these extra profits will be also in excess of the profits anticipated in the planned program.

It is obvious that the planning of a business operation can be done with much greater accuracy when food brokers, instead of salaried salesmen, are used in the sales activities. There are of course some fixed selling expenses, such as postage, telegrams, telephone charges, and the salaries and expenses of the general sales manager and perhaps some field assistants; but these particular expenses are necessary whether food brokers or salaried salesmen are employed and constitute only a small part of the total selling costs.

Planning the Operations.—A simple example of a planned sales operation in which food brokers are used is shown by the following hypothetical schedule of operations, which in this instance is prepared on a unit basis:

Schedule of Operations

Sales quota for year, in units		400,000 cases
Anticipated gross profit at 40¢ per case	$160,000.00	
Brokerage at 20¢ per case	80,000.00	
Balance	$ 80,000.00	
Budgeted sales administrative costs	17,000.00	
Anticipated net profits on sales	$ 63,000.00	

In this example of a planned sales operation, the quota of 400,000 cases would be allocated among the various brokers so that each would have his own sales objective toward the fulfillment of the entire program. The sales administrative costs, which will include all the elements entering into the cost of selling with the exception of brokerage, are budgeted, and must then be kept within these fixed limits. The gross profit spread of 40 cents a case is a problem for the production department; it is to be assumed that this department has made a careful study of the production costs in advance, so that with a fixed selling price the average gross profit spread of 40 cents a case can be reasonably assured. Production costs and selling prices may individually fluctuate up and down, but what is more important is the maintenance of the gross profit spread in spite of these variations. That is why more emphasis in this schedule has been placed on the profit spread than on production costs as compared with the proposed selling prices.

Here is a simple program for the successful operation of a business enterprise broken down into its essential elements. What is of greatest importance is the establishment of definite objectives—a goal for the sales department to reach, a program for the production department to attain, and a limitation on the expenditures of the administrative department in its efforts to co-ordinate all of these activities into a successful fulfillment of the entire program.

This simple explanation is an attempt to show as briefly as possible how planned operations are conducted. A volume could be written on this interesting and profitable matter of planning business operations in advance just as an architect prepares the blueprints and specifications for an edifice. Planned operations are more and more being employed by aggressive and efficient industrialists. In fact, the author is acquainted with one industrial leader who has an unusually successful record for rehabilitating enterprises that seem hopelessly lost as a result of previous bad management. He never undertakes the re-establishment of any business unless every detail of the future operations is carefully planned in advance. This planning gives every key man in the organization a definite goal and keeps him constantly alert to the importance of doing his part in the established program. The subject has been briefly treated in this book because of the importance of one phase of planning—sales quotas—in marketing through food brokers; it would be an omission to lay stress on the importance of establishing sales quotas without some mention of the associated elements that constitute the complete planning of a business activity.

CHAPTER 8

SALES STATISTICS, RECORDS, AND CHARTS

The Value of Statistics.—It is almost impossible to conduct a business efficiently unless some statistics are kept to gauge the progress that is being made from year to year in the operations. It is like working in the dark if there are not some means of measuring business accomplishments, especially as far as the important matter of sales is concerned. The large producers in the food industry, of course, do not overlook the advantages to be derived from a careful attention to what may be termed "vital statistics," and many of them have elaborate organized departments equipped with automatic accounting machines to compile the essential data for the measurement and control of all sales and production activities.

Of course, it is possible to amass a lot of useless statistical information, for figures in themselves will neither increase sales nor reduce production costs; but there are some statistics which are absolutely essential and without which the producer or seller is apt to drift into dangerous waters, like the captain of a ship who refuses to take his compass bearings from time to time.

In the first chapter of this book the illustration was given of a producer of canned foods who permitted the selling expenses of his business to get out of bounds through the employment of a large salaried sales force, with the result that the business was almost wrecked. This particular company kept no comprehensive records of its sales activities. If records, in sufficient detail, had been kept, the company would have seen the danger signals before too much damage was done. When the time came to examine the affairs of this company in order to save it, the investigators were obliged to go back over the sales records for the preceding two years from data available in ledgers, sales books, etc., and cull out from this miscellany the essential statistics that should have been segregated and recorded long before. The performance of the many sales divisions was unknown, and when the sales and selling costs in each were segregated and analyzed the results were quite startling. In some divisions the cost of making sales exceeded 100 per cent; in others they were as low as 10 per cent; but this knowledge was unattainable until a diagnosis had been made from the statistics compiled by the investigators. The high selling costs in many territories were more than absorbing the profits from other divisions, so that the net results were substantial losses.

Just as a physician is obliged to examine the blood pressure, the heart action, the lungs, and other important organs when he makes a diagnosis of a patient's condition, so it was necessary to examine the data brought to light by the statistics compiled in this company's affairs in order to ascertain the factors that were working to its detriment. Some statistics are most important in every business operation, and it is possible to make a proper diagnosis only when they are available. It was only after the essential statistics were available that it was possible to see why the affairs of the company used in this illustration were in a bad condition. This demonstrates the importance of statistics. Had records been kept and studied by the management from time to time, the trends of this business would soon have been apparent and steps could have been taken to correct the situation before it became dangerous.

Statistics Indicate Business Trends.—Statistics are not only important as a means for ascertaining the facts of current operations, but they are the only possible means for comparing the present with the past and—what is perhaps of even greater importance—for estimating the trend the business will take in the future. It is certainly of importance for a producer to know just how the sales of his product are faring from year to year. Are the sales going up steadily or are they going down? Has the peak been reached, and if so, what can be done to overcome the inertia? Are the selling costs increasing from year to year and eating into the net profits or are they being held at a low consistent level that will permit a fair profit? Is the money spent on advertising bringing an increased sales volume commensurate with the expenditure? The answers to these problems will not be given by the statistics in themselves, but the statistics will show without fail whether problems exist and to what degree.

Meager Statistics Are of Little Value.—Few producers pay sufficient attention to statistics. Many consider them quite unessential, but there are very few indeed who do not find it necessary to compile at least the simplest form of statistical information known as the annual profit or loss statement for the business operations. Such statements cannot be ignored by any businessman; but although they are a form of statistical information and show the results of past operations, they do not show the more intricate details of the many factors that contribute to the success or failure of the operations. Such statistics are entirely too meager to show the contributing factors at work; when they are obtained at the end of the year it is too late to correct the conditions that may have had a great bearing on the final results.

Meager statistics are little better than none at all. To be of any value, statistics must be complete and fully detailed for all the important and vital phases of a business. The chief purpose of past statistics is to serve as a guide for present operations; statistics procured today will act as a guide for tomorrow. In this respect statistics do not age, but are always useful for making necessary comparisons and in planning future conduct. They should be collected from day to day, week to week, month to month, and year to year, in order to be of any value in appraising present operations and to show the trend of the business.

Statistics Can Be Too Elaborate.—It is possible to become so fascinated with statistics that the collection of them can be greatly overdone and much time and money wasted in amassing a lot of data that may be interesting but of little or no direct importance for the actual needs of the business. The producer should be cautioned against such a superabundance of statistical information; he must confine his attention to the data that will give him the amount of information necessary to enable him to conduct his business intelligently, with every important factor in the operations subject to constant measurement.

One statistical expert enumerates as many as 30 items essential for giving a sales manager the information he must have in order to gauge properly the results of his activities; the average producer in the grocery field, particularly if he markets his products through food brokers, will find a much smaller number of items adequate for the efficient management of his business. The minimum statistical requirements essential in marketing through food brokers refer solely to sales activities. When statistics are gathered to make market surveys or to determine the sales potentialities of a product, they can and often must be of the most detailed nature. The subject of market surveys will not be considered in this book, because that field is a highly specialized one and requires elaborate statistical treatment. The subject is completely covered in many available textbooks. Here, attention will be directed only to such statistical information as will be necessary to equip a sales manager, engaged in marketing a grocery item, with the data he needs to govern and measure his progress.

The Essential Statistics.—The amount and the nature of essential statistical information depend largely on the product and the manner in which it is marketed. If the sales are made through food brokers, the following six items of record will be the minimum necessary to cover the selling activities:

1. The total annual sales for each year in terms of dollars or units, or both.
2. The total monthly sales for each year to show possible seasonal variations and to make possible monthly sales comparisons from year to year.
3. The sales made by each broker each month in terms of dollars or units, or both.
4. The sales made by each broker in each brokerage territory per year in terms of dollars or units, or both.
5. The annual sales by states in terms of dollars or units, or both; in these the brokers' territories are disregarded in favor of state boundaries.
6. The selling costs in relation to sales volume, by month and by year.

Sometimes it is also advantageous to have a comparative annual record of purchases by each customer. If this additional information is of value in promoting the sales to each buyer, it can be easily compiled in a simple manner from the office ledgers by using a card record for each customer on which his total purchases for each year can be posted.

If more than one product is being marketed, these six items can be prepared for each product; however, if such separate records are kept, a combined statement should be made covering all the products together, which will serve as a summary of the total operations and give a picture of the business as a whole.

The first five of these record requirements can be compiled in terms of units such as cases, pounds, barrels, or whatever the standard unit of packaging may be, or in terms of dollars and cents. Often both units and dollars are of equal importance and statistics can be kept to cover both. Since the profit-and-loss statement of every business is compiled in terms of dollars and cents, the matter of the selling-cost statistics should be based on the monetary measurements, so that the selling costs can be computed on the convenient percentage basis.

Simple forms can be used for compiling each of these records, the test of the adequacy of the form adopted being that it can be easily understood and readily prepared with a minimum of time and effort. The following forms are suggested as possessing these qualifications:

1. Charting the Annual Sales.—It is always highly desirable to have a complete record of total annual sales so that one year can be compared with another. The longer such a record is kept the more valuable it becomes, in that it shows the entire sales history of the company over a number of years under varying economic conditions.

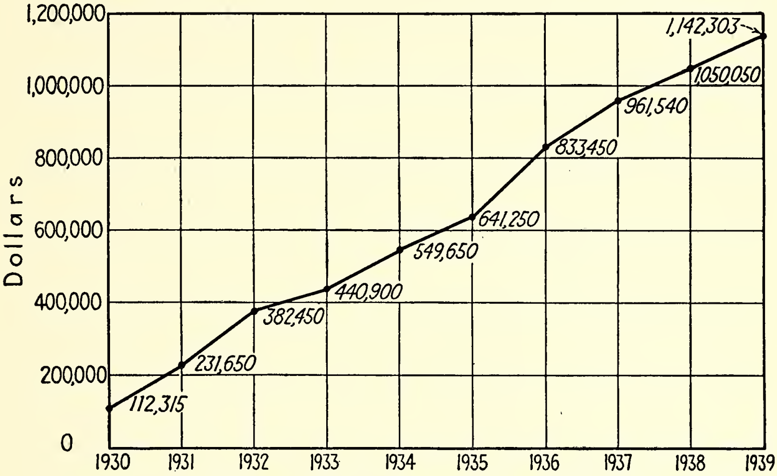


EXHIBIT 11.—A chart of total annual sales for a period of 10 years.

The total sales, both in dollars and by units, for each year can always be obtained from the sales ledgers; at the end of the year a complete separate statement should be compiled showing the sales for the period in complete detail. It is, however, often convenient to have these figures in a form that can be seen at a glance; for this purpose the use of a graphic chart on cross-section paper is recommended. An example of this type of chart appears in Exhibit 11, which shows total sales in terms of dollars for ten successive years. It can be seen at a glance how the business has grown during this period. The rate of growth is shown by the rising line. If this normal rate of growth is continued, the extension of the line along the same angle of inclination will indicate what should be accomplished for several years in the future. The entire record appears on one sheet of paper.

Cross-section paper of standard letter size (8½ × 11 inches) is obtainable in any good stationery store. The horizontal lines can be scaled to any degree to meet the requirements of the business, and the vertical lines to denote the years covered. A similar chart can be prepared to show the total sales each year in terms of units instead of dollars; in this case the horizontal lines would be scaled in terms of units.

2. Charting the Total Monthly Sales for Seasonal Variations and for Comparative Purposes.—If the sale of the product being marketed is subject to variation from season to season, it is well to keep a record of total sales by months throughout the year, so that these variations will be apparent and measurable. It is always helpful to compare the sales of one particular month with those of the same month in previous years. Monthly sales records are also valuable in that they give frequent opportunities for checking the progress of the sales during the course of the year. This frequency enables monthly checks to be made on the actual sales performance against the quotas that have been established, so that if the actual sales fall under the expectations, pressure can be immediately applied to bring the sales up to the set standards before it is too late in the year to accomplish anything in this direction.

For charting the monthly sales records, a graphic presentation on cross-section paper can be prepared by using the same type of paper recommended for recording the annual sales. Only one chart will be required to show these monthly variations for from two to five years. In this chart the horizontal lines will again be scaled for the sales in units or in dollars, and the vertical lines for each of the twelve months. A separate line will be drawn on the chart for each year, colored inks being used to distinguish the different years. If it is desired to use black ink only, the different years can be distinguished by various types of solid and broken lines. An example of such a chart appears in Exhibit 12, in which the sales are shown in terms of units (cases) and solid and broken lines are used to distinguish the separate years. The same chart could have been used to show the sales in dollars by scaling the horizontal lines in dollars instead of in cases.

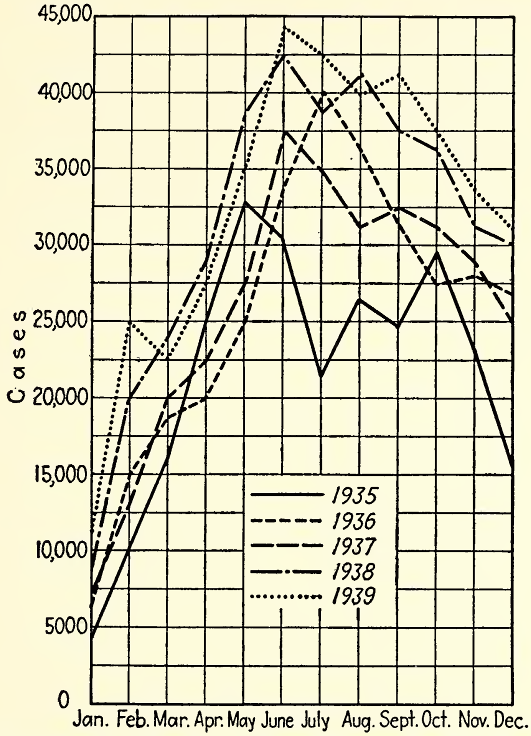


Exhibit 12.—A chart of sales by months for five years to show monthly variations.

If monthly and yearly quotas have been established, the figures for each month can be drawn into the chart in advance, and each month the actual sales can be added to show how they are approximating the established figures.

Sales and quota charts should be prepared on a cumulative basis, since the results for each month contribute to the total for the entire year. An example of this type of chart showing cumulative quotas and cumulative sales for each month appears in Exhibit 13.

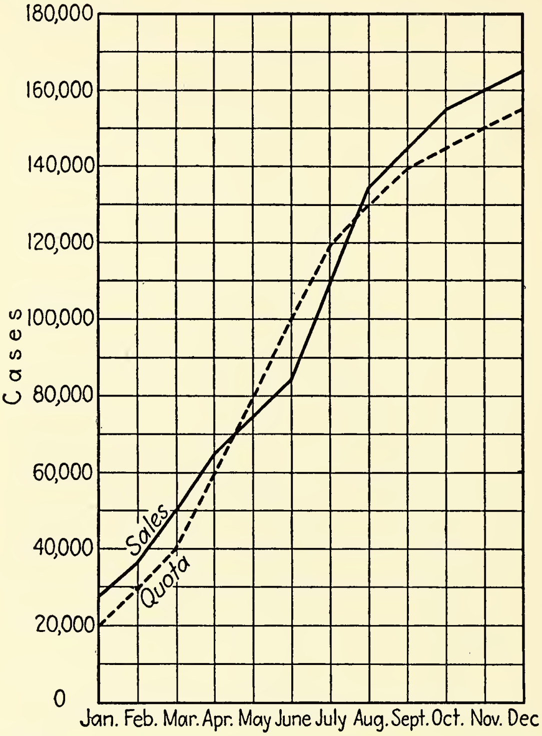


EXHIBIT 13.—A chart of cumulative sales and quota by months for one year.

In making such charts as have been recommended, written records should be prepared in order to collect the data that are to appear. Such written records, possibly covering a number of years, should be kept safely filed away, so that if extra charts have to be prepared or the originals replaced, the material will always be at hand in this condensed form. An example of a simple written record showing total sales by both months and years is shown in Exhibit 14.

EXHIBIT 14.—STATEMENT OF SALES PER MONTH
MONTHLY AND CUMULATIVELY

Month	1934	1935	1936	1937	1938
			Monthly		
January	$ 1,222.01	$ 2,149.98	$ 9,299.31	$ 9,352.67	$ 11,936.29
February	4,072.11	11,300.10	12,181.06	21,777.71	32,032.63
March	11,588.88	18,203.40	12,415.37	44,366.44	31,246.22
April	7,444.03	21,402.08	20,414.86	55,282.82	37,635.22
May	11,421.59	18,839.49	22,046.52	38,928.76	70,427.97
June	6,958.93	17,283.97	27,923.97	34,694.28	60,743.92
July	10,641.96	20,358.77	44,317.06	30,783.51	41,964.24
August	15,418.87	26,898.08	54,348.90	27,298.21	44,454.23
September	23,388.81	24,786.16	39,086.14	45,454.49	53,601.89
October	37,322.63	35,337.19	35,129.25	24,219.64	70,083.18
November	7,459.04	27,181.17	20,898.22	26,442.49	72,090.36
December	9,719.05	61,447.44	25,839.37	32,936.80	89,650.20
Totals	$146,557.86	$285,187.83	$323,900.03	$391,537.82	$615,866.35
			Cumulative		
February	$ 5,294.12	$ 13,450.08	$ 21,480.37	$ 31,130.38	$ 43,968.92
March	16,883.00	31,653.48	33,895.74	75,496.82	75,215.14
April	24,327.03	53,055.56	54,310.60	130,779.64	112,850.36
May	35,748.66	71,895.05	76,357.12	169,708.40	183,278.33
June	42,707.59	89,179.02	104,281.09	204,402.68	244,022.25
July	53,349.55	109,537.79	148,598.15	235,186.19	285,986.49
August	68,768.33	136,435.87	202,947.05	262,484.40	330,440.72
September	92,157.14	161,222.03	242,033.19	307,938.89	384,042.61
October	129,479.77	196,559.22	277,162.44	332,158.53	454,125.79
November	136,938.81	223,740.39	298,060.66	358,601.02	526,216.15
December	146,557.86	285,187.83	323,900.03	391,537.82	615,866.35

3. Recording the Monthly Sales Made by Each Broker.—It is not recommended that the sales made each month by each broker be recorded graphically on cross-section paper. If a producer has a large number of food brokers, too many charts would be required to make such work advantageous. Sales by brokers require more specific information than is possible through the use of charts.

Loose-leaf Pages for Keeping Records.—Conveniently ruled loose-leaf pages serve best for keeping such records. These sheets may be of standard size and, when filed together in a loose-leaf binder, are always available for entry and inspection purposes. One page is devoted to each broker or brokerage territory. The total sales made by each broker can be promptly secured from the brokerage statements prepared for him and entered on his page at the end of each month. The total sales for the twelve months will appear at the bottom of each yearly column. Such a record will enable the sales manager to see at a glance what progress is being made by each broker; the form is so simple to prepare and easy to keep that only a

Exhibit 15.—Statement of Sales by Brokerage Area

Territory: #23, Maryland Broker: John Doe & Co., Baltimore, Md.

Month	1934	1935	1936	1937	1938
		Monthly			
January	$ 153.18	$ 53.88	$ 691.97		
February	474.52	557.04	397.89		
March	286.15	330.06	360.71		
April	2,021.85	340.87	407.79		
May	891.75	394.88	3,106.47		
June	1,173.27	1,664.27	7,061.10		
July	580.04	4,052.15	5,125.72		
August	952.77	3,676.42	6,431.94		
September	483.18	2,113.94	6,762.76		
October	389.13	2,333.55	2,386.93		
November	1,120.71	2,591.42	2,311.95		
December	249.23	1,542.28	3,083.40		
Total	$8,775.78	$19,650.76	$43,128.99		
		Cumulative			
February	$ 627.70	$ 610.92	$ 1,089.86		
March	913.85	940.98	1,450.57		
April	2,935.70	1,281.85	4,858.36		
May	3,827.45	1,676.73	11,964.83		
June	5,000.72	3,341.00	17,025.93		
July	5,580.76	7,393.15	22,151.65		
August	6,533.53	11,069.57	28,583.59		
September	7,016.71	13,183.51	35,346.35		
October	7,405.84	15,517.06	37,733.28		
November	8,526.55	18,108.45	40,045.59		
December	8,775.78	19,650.76	43,128.99		

few hours of work each month will be sufficient to maintain the records up-to-date.

A specimen of this suggested form appears in Exhibit 15, which includes the accumulated sales on the lower half of the page. The cumulative figures are easy to obtain by adding the monthly sales, and a glance at the record will show them from the first month of the year up to and including any other month. The cumulative figures are of the utmost importance because, although the sales during the different months of the year may vary, it is the total record for any stated period that gives the true measurement of sales accomplishment.

4. Charting the Annual Sales Made by Each Broker.—The annual sales made from year to year by each broker can also be shown on cross-section paper, or a simple written record can be maintained without the monthly detail. After the lapse of a few years the monthly sales by each broker will be relatively unimportant and the total yearly figures will give the information most valuable to check his progress. A record of these annual sales covering a period of many years can be prepared on one sheet for all brokers. This sort of record makes it possible to compare readily the sales of one broker with those of another, and the total sales appearing at the bottom of the column for each year show the total combined sales of all the brokers for that year. An example of this simple form appears in Exhibit 16. In this specimen 27 brokers are given, but the list could be extended to accommodate the names of as many more as desired. Entries into such a list are made only at the end of each year; the simplicity of the form makes it possible to add such information in just a few minutes.

Territorial Designations.—Because changes are made at times in brokerage relationships, it is advisable in preparing sales summaries to use the territorial designation for a brokerage area instead of the broker's name. As indicated elsewhere in this book, some principals use numbers for designating the territories allocated to brokers, others describe the area by the name of the city in which the broker is located. When brokers are appointed to succeed other brokers in the territory, the number of the territory or its name remains unchanged. The principal is primarily interested in the total volume of sales made in each territory, and all sales comparisons must be made by territory and not by broker. For example, the brokerage area surrounding Philadelphia, Pa., should be designated not by the name of the broker who carries the account in that city,

EXHIBIT 16.—ANNUAL SALES, ALL BROKERAGE AREAS

Territory	1935	1936	1937	1938
1. Boston	$ 1,030.80	$1,432.34	$ 1,898.52	$ 2,156.98
2. New York	1,018.40	1,094.66	3,044.44	1,961.33
3. Philadelphia	1,099.00	1,211.57	2,150.78	2,465.43
4. Baltimore	1,324.25	7,184.03	4,765.40	4,793.75
5. Richmond	1,198.50	2,023.00	13,100.50	23,765.25
6. Norfolk	1,147.15	1,377.23	2,050.54	1,867.56
7. Raleigh	1,011.25	2,867.48	2,875.75	3,120.45
8. Charleston	2,369.46	2,213.75	3,565.45	9,450.54
9. Savannah	1,052.15	2,033.50	2,987.40	5,369.93
10. Jacksonville	1,022.40	1,082.97	3,875.45	14,724.63
11. Tampa	1,010.95	5,446.81	6,543.75	8,396.49
12. Miami	1,187.85	2,213.85	2,789.54	4,469.95
13. Mobile	1,015.12	1,116.40	1,989.56	3,485.50
14. New Orleans	17,440.43	5,336.45	4,231.50	10,856.50
15. Montgomery	1,217.20	2,356.57	5,795.43	8,634.53
16. Birmingham	2,041.27	3,056.34	4,678.34	14,430.50
17. Chattanooga	....	1,567.54	3,010.30	9,367.23
18. Atlanta	2,688.99	3,098.45	3,567.54	14,537.90
19. Knoxville	1,310.20	2,010.87	3,090.54	10,375.75
20. Nashville	2,043.20	2,587.25	2,100.23	6,327.65
21. Memphis	2,028.50	2,967.54	4,908.45	7,576.48
22. Louisville	1,860.09	2,076.75	3,675.34	5,894.54
23. Bluefield	2,631.72	2,374.65	3,100.60	9,560.40
24. Cincinnati	1,150.38	2,090.90	2,945.23	10,541.43
25. Columbus	1,804.28	3,100.50	4,432.24	8,650.50
26. Pittsburgh	1,000.00	1,567.50	2,564.65	6,376.43
27. Buffalo	2,500.50	2,010.65	4,438.95	12,547.50
Total				

because he may be changed at some future date, but as "Territory No. 4" or whatever number is chosen, or it should be designated as "Philadelphia Area."

Exhibit 17.—Monthly Sales, All Brokerage Areas

Territory	January	February	March	April	May
1. Boston.......	$ 40.60	$ 87.39	$ 45.43	$ 190.50	$ 450.50
2. New York...	200.45	145.43	367.76	1,560.54	2,590.34
3. Philadelphia .	760.45	1,476.54	567.23	897.45	1,407.45
4. Baltimore....	430.23	345.56	423.76	543.89	587.65
5. Richmond....	237.43	365.54	874.65	275.54	143.41
6. Norfolk......	101.41	321.54	167.87	239.34	165.51
7. Raleigh......	472.31	561.54	634.31	756.76	89.45
8. Charleston...	895.45	654.34	185.54	745.35	134.50
9. Savannah....	65.34	97.50	76.51	156.65	468.30
10. Jacksonville..	98.00	487.40	497.50	430.23	167.51
11. Tampa......	50.00	465.71	472.50	824.32	124.75
12. Miami.......	87.50	154.65	643.32	175.50	432.25
13. Mobile.......	145.25	176.45	245.35	365.65	665.65
14. New Orleans.	425.45	153.75	536.76	358.97	1,465.35
15. Montgomery.	543.78	253.46	136.76	352.43	532.21
16. Birmingham..	542.75	253.46	647.75	593.89	346.35
17. Chattanooga.	340.40	135.47	863.50	470.51	583.57
18. Atlanta......	1,476.68	1,200.45	1,359.58	768.36	936.25
19. Knoxville....	893.35	473.59	159.86	746.85	265.34
20. Nashville....	365.23	411.11	751.30	275.35	487.35
21. Memphis.....	437.50	587.31	904.50	690.45	1,532.31
22. Louisville....	1,900.50	1,367.29	2,475.30	1,430.50	3,385.51
23. Bluefield.....	430.31	756.31	487.54	876.50	375.25
24. Cincinnati...	850.40	230.56	141.51	783.51	475.67
25. Columbus....	540.69	357.45	289.23	348.51	386.25
26. Pittsburgh...	586.35	489.81	975.54	487.95	476.15
27. Buffalo......	653.21	367.14	750.50	475.25	650.00
Total..........					

If a complete recapitulation of monthly sales made by all brokers is desired, a form such as that shown in Exhibit 17 is suggested. This form is similar in construction to the form shown in Exhibit 16 except that 12 vertical columns are used, one for each of the months of the year. The figures for posting in this form can be transferred, month by month, in a few minutes from the individual broker's sales record form shown in Exhibit 15. The specimen in Exhibit 16 is shown for five months only.

5. Annual Sales by States.—This statistical record may not be considered necessary when the sales totals records for each broker are kept, but frequently there will be as many as five or more brokers operating in one state, or again it may happen that the territories allocated to brokers cross or ignore state lines. Since the state is a convenient unit and is generally the one used for presenting national statistics, a record of the sales by states not only shows the combined efforts of all the brokers operating in each, but makes comparisons possible between states.

With records of sales by states many measurements of potentialities are possible that could not otherwise be obtained. Complete statistics of each state are published by the Federal and state authorities. With them it is possible to obtain quickly a measurement of sales as compared with population and other standards which may be used as bases for making various types of market surveys.

Since it may be difficult to isolate and separate the sales any one broker may make in several states as they will appear on the monthly brokerage statements prepared for each broker, the state sales records can be more quickly obtained from the carbon copies of the invoices of each sale. In another chapter of this book mention has been made of the advantage of preparing multiple-copy invoices. Frequently a fourth copy is prepared for the use of the sales department in compiling statistics. The invoice copy will show the state in which the buyer is located. It will require only a few hours of work each month, by going through the copies of invoices issued during the month, to make a complete tabulation of the sales made in each state, even when the number of invoices runs into the hundreds. When the invoice copies used for statistical purposes exceed 1,000 a month it is the practice among the large companies to use a tabulating machine which gives all the required statistical information automatically.

A simple form for recording each month the sales made in each state is shown in Exhibit 18. The sheet contains 49 horizontal lines—one for each state and one for the District of Columbia, which is usually considered a separate territorial unit. There are 14 vertical columns, of which the first shows the state, the next twelve the months, and the last the totals for the entire year. When the totals for the year are obtained, they can be transferred to another form such as is shown in Exhibit 19, which records the sales by states for a number of years on one sheet. The data appearing on the monthly form are posted at the end of each month, or twelve times a year. The data on the yearly

Exhibit 18.—Sales by States, Monthly

State	January	February	March	April	May
Alabama	$421.64	$527.37	$219.34	$592.60	$873.45
Arizona					
Arkansas					
California					
Colorado					
Connecticut					
Delaware					
Florida					
Georgia					
Idaho					
Illinois					
Indiana					
Iowa					

form are posted only once each year. Accordingly very little effort will be required to keep these sheets up-to-date.

EXHIBIT 19.—SALES BY STATES, YEARLY

State	1935	1936	1937	1938	1939
Alabama	$4,232.69	$5,629.80	$7,214.55	$8,419.40	$8,261.35
Arizona					
Arkansas					
California					
Colorado					
Connecticut					
Delaware					
Florida					
Georgia					
Idaho					
Illinois					

Sales Statistics by Means of Maps.—Pictorial records of annual sales by states are easily made by using clear-type outline maps of the United States, in which only state boundaries are shown. Different colors or different types of black shading can be used for showing the volume in sales reached in each state. When such maps are prepared from year to year, they give an interesting picture of the sales progress being made throughout the entire nation. The statistics used for preparing these maps can be readily obtained from the annual records of sales by states. An example of such a sales map appears in Exhibit 20. In this specimen map the sales volume reached in the states is shown by various shadings. The key to the shaded areas appears in the Exhibit. One glance at this map, after the

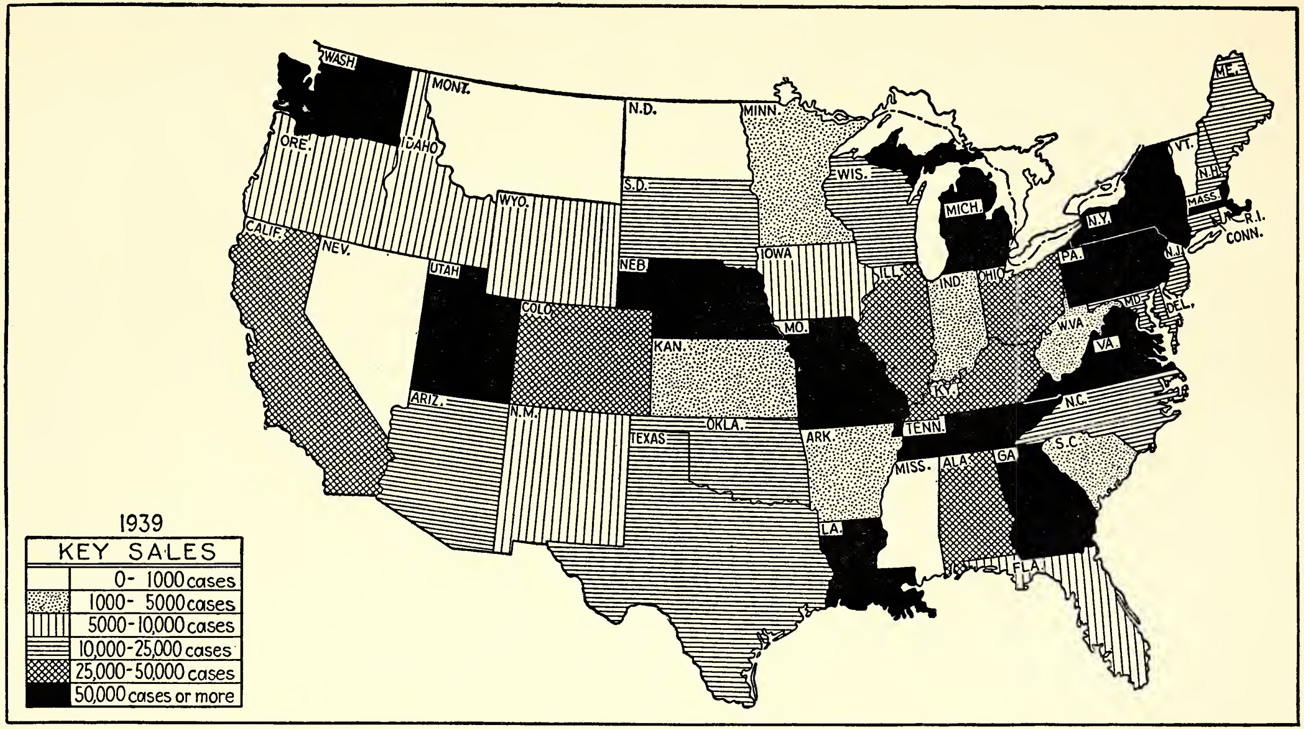

1939
KEY SALES
0- 1000 cases
1000- 5000 cases
5000-10,000 cases
10,000-25,000 cases
25,000-50,000 cases
50,000 cases or more
WASH.
ORE.
CALIF.
NEV.
IDAHO
MONT.
WYO.
UTAH
ARIZ.
COLO.
N.M.
N.D.
S.D.
NEB.
KAN.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WIS.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W.VA.
MD.
DEL.
PA.
N.J.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
CONN.

Exhibit 20.—Pictorial map of United States showing total sales by states for one year.

key is understood, shows exactly what sales status has been reached in each state, and if these sales maps are kept over a period of time for comparison purposes and if they are chronologically attached to each other, they make a very picturesque and interesting history of national sales development.

If colors are used to distinguish between the various levels of sales volume, not more than five should be used in the map and these should be so graduated in character and intensity that the deepest color will show the highest level of sales accomplishment. For instance, on the map in Exhibit 20, colors could have been as follows:

White	0 to 990 cases
Gray	1,000 to 4,999 cases
Pink	5,000 to 9,999 cases
Red	10,000 to 24,999 cases
Maroon	25,000 to 49,999 cases
Dark brown	50,000 cases or over

6. Tabulating the Costs of Selling. *Three Important Elements in Selling Costs.*—When sales are made through food brokers, the selling costs should be divided into three groups:

1. Commissions or brokerage paid to the brokers on sales made by them. The total of such payments can be procured from the monthly brokerage statements prepared as suggested in this book for each broker.

2. General selling expenses, which will include the following items:

   a. Salaries to sales manager, district supervisors, or other personnel engaged on a salary basis to supervise the work of the brokers, together with the traveling expenses of such salaried sales personnel.

   b. Telephone, telegraph, and postage charges connected with the sales activities.

   c. Salaries of office personnel engaged in accounting work for the sales department.

d. Samples used by the brokers for demonstration purposes.

e. All other miscellaneous charges in connection with the sales activities.

3. A proportionate share of the administrative expenses, which should be divided on some equitable basis between the sales and production departments of the business. This includes salaries of officials, legal charges, rent for the executive offices, insurance, taxes, and all other expenses not included in the two other categories.

Apportionment of Selling Costs.—The sum total of the charges enumerated under Group 2 of the general selling expenses should be complied each month, and should be apportioned to the sales made by each broker on a percentage of sales volume basis; or if this detailed breakdown is not essential, these Group 2 selling expenses can appear as a total selling charge plus the payment for brokerage (Group 1 expenses) and applied to the entire total sales volume for each month. An example of the first type of apportionment is as follows:

Total sales for month........ $100,000.00

Group		
1.	Brokerage payments to brokers	$5,000.00
2.	Salaries and expenses of sales personnel	1,100.00
2.	Communication expenses	150.00
2.	Sales-office personnel salaries	350.00
2.	Samples used by brokers	250.00
3.	Administrative charges to sales	1,000.00
	Total	$7,850.00

Total selling costs for month are 7.85 per cent of total sales.

It will be noticed that the items of cash discount and deliveries of merchandise sold are not included among the selling expenses. These items, according to the practice of most accountants, are included in selling prices and in production costs.

The Group 2 expenses in this example amount to $1,850, which is equivalent to 1.85 per cent of total sales; the total expenses of Groups 2 and 3 are equivalent to a charge of 2.85 per cent against all sales made by brokers in addition to the brokerage payment, which total $5,000 and are equivalent to 5 per cent of all sales.

If only one product is sold and the rate of brokerage is uniform to all brokers, each territory will have a total selling expense of 7.85 per cent. If there are a number of different products in the line which carry different rates of brokerage, the selling expenses in Groups 2 and 3 will be apportioned among the various brokerage territories in the following manner in order to arrive at the exact percentage cost of sales in each territory:

Territory	Total sales	Per cent	Brokerage payments, Group 1	Proportionate sales overhead, Groups 2 and 3	Total cost	Per cent of sales cost
New York.....	$ 40,000.00	40.0	$1,800.00	$1,140.00	$2,940.00	7.35
Buffalo.......	30,000.00	30.0	1,600.00	855.00	2,455.00	8.18
Baltimore.....	15,000.00	15.0	750.00	427.50	1,177.50	7.085
Norfolk.......	10,000.00	10.0	350.00	285.00	635.00	6.35
Albany.......	5,000.00	5.0	500.00	142.50	642.50	12.85
	$100,000.00	100.0	$5,000.00	$2,850.00	$7,850.00	

In this example it can be seen that the general sales expenses plus the administrative expenses, which totaled $2,850 in the first example, have been used in this second example, but in the latter this total was apportioned among the various brokerage territories on a basis of total sales made in each territory. The total selling cost for all items including brokerage is divided by the sales made in each territory to arrive at the total cost of making the sales in each territory in percentages.

Advertising expenses are omitted from these examples because they are not a direct cost against sales. Such expenses must be considered as a separate and distinct charge against the total volume of sales; when advertising is done, a separate category should be set up for such expenditures. The advertising budget will be prepared and its expenditures kept within the established limits.

Additional Statistics.—Additional statistical items can, of course, be added to those suggested, if such are found to be helpful in guiding and measuring the sales activities. No attempts have been made in this chapter to give any but the briefest details for compiling and recording what are considered essential statistics. This subject is so broad, and there are so many forms that can be used for tabulating statistical information, that an entire volume could be devoted to a description of them. If the reader is interested in more complex details of this subject, he may consult one or more of the many volumes which have been published and are available for the purpose. If the simple elements are well understood and practiced, additional details can be introduced at any time, but it is always advisable to put the simple forms into practice before the more complex are attempted. If additional statistical detail is required, it will soon be apparent to the producer or sales manager who is operating under statistical methods; when necessary such additional detail can be built around the simple forms explained herein.

Quota Systems Require a Statistical Basis.—If the producer uses a quota system for guiding the sales activities of his brokers, as outlined in the chapter on quotas, additional statistical information will be required, particularly population statistics, since most sales quotas are based on these figures. Such statistics are also required to compute the population of a broker's territory when the county is used as a territorial unit, as suggested in the chapter on the allocation of territories. Population statistics for counties and states are available in the publications of the Federal government, and can be tabulated in a semipermanent form, since they are available at the end of every decade.

CHAPTER 9

THE BROKER'S OFFICE

Every food broker, because of the nature of his business, is obliged to maintain an office. He must have an address to which his mail can be sent and where the various buyers in his territory can send their orders and requisitions for merchandise or communicate with him by telephone or telegraph.

Location of the Broker's Office.—The broker may have his headquarters in a centrally located office building or perhaps in a public warehouse building. Public warehouse operators, recognizing that food brokers bring trade and storage accounts to them, frequently build in such a manner as to provide suites of offices for brokers in their warehouses. The broker's office must be equipped with telephones; often it contains teletype machines to facilitate the transmission and receipt of telegrams to and from principals and buyers.

Cost of Maintaining the Broker's Office.—A large share of the broker's income from commissions is used to maintain his office and its personnel. The principal who sends his broker a commission check covering his sales must realize that perhaps as much as 75 per cent of that income will be used by the broker for the maintenance of his establishment. If these offices were not maintained by food brokers in the important marketing centers, the principal would be obliged to shoulder the costs of them, particularly if the volume of sales in any territory required the presence of a resident salesman to attend to the many matters that demand personal attention in a large market. Branch offices established by principals are subject to local and state taxes, especially if they are located in states other than the one in which the principal has his home office; such taxation is an additional expense to the cost of making sales.

The Broker's Office Serves as a Branch Office for the Principal.—The principal who uses food brokers has the advantage of what may be described as branch offices in every important marketing center where he has appointed a broker. The principal will enjoy all the advantages of such branch offices at no expense to himself. This is a part of the service he receives in exchange for the nominal commission he pays the broker. Regardless of the amount of actual time a broker spends on an account, whether it be for only a short period during the year, because of the seasonal character of the product, or whether the product requires continuous attention throughout the year, the principal has at all times—to serve him at a moment's notice—the advantage of a resident salesman with complete office facilities.

Types of Brokerage Concerns.—Brokerage establishments exist in all forms, from the one-man concern in less important markets to the extensive food brokerage establishments found in the large centers. A study of the published lists of food brokers indicates that partnerships are popular and that a large percentage of the concerns are incorporated. When incorporated, the stock is, in most instances, closely held by the founder of the business or is divided among the partners or associates. No buyer is permitted to own shares of stock in a brokerage concern, as this may be a means of securing an unfair price advantage over competitors; such ownership would be a violation of the provisions of the Robinson-Patman Act. The brokerage corporations are generally of small capitalization so that the taxes are kept as low as possible. Furthermore, since the food broker neither buys nor sells merchandise on his own account, very little capital is required to conduct the business.

Essential Functions of the Broker's Office.—In dealing with the subject of the broker's office and the manner in which it is operated, it should be recognized that the broker is in business to earn money, and to accomplish this objective he must perform three major functions:

1. He must make sales for his principals.
2. The orders for merchandise which he receives from buyers must be forwarded promptly to the appropriate principals.
3. He must collect from his principals the brokerage due him on such sales.

The broker's office, as the main consideration, must first accommodate itself to these three fundamentals and must be geared to perform these functions properly at the least expense to the broker.

The Successful Broker Cannot Charge Higher Fees for His Services.—The food broker, after he has achieved a good reputation for successful performance, unlike men in many other professions, cannot and does not charge higher fees for the services he renders. The good broker and the poor broker both receive the same rate of commission. Most principals employ standard rates which are paid to all brokers alike; consequently, the successful broker, who can increase his income only by making more sales for the principal, must manage his office in the most economical manner, so that too large a proportion of his income is not diverted to useless ends and frivolities. Economy must be the keynote for every broker's establishment, and that is why the average office is conducted on the most simple lines and all needless work is eliminated.

The Size of the Broker's Office.—The office may consist of only one room, which is all the space usually required by a broker in a small market, or it may be a large suite of offices if he is located in an important marketing center. The size of the office and the number of its personnel depend largely on the amount of business booked by the broker and the character of his accounts. A broker who contacts many buyers in an important market and who sells annually $10,000,000 worth of merchandise will require a larger office and more help than one who operates in a small market in which the sales do not exceed $1,000,000 yearly. The more business handled by the broker, the larger his office staff must be, to attend to the many details that accompany extensive operations. Whether the office is large or small, the office routine and the clerical details are approximately the same and differ not in kind but in degree.

Many Brokerage Rates Are Too Meager.—It has been mentioned several times in this book that the commissions now being paid to food brokers by principals in many lines are entirely too meager; this important truth should be recognized by principals when they study the broker's office requirements and realize the enormous amount of work, both sales and clerical, required for the small commissions he receives. Every year the average broker is burdened with new responsibilities by many of his principals. Constantly changing economic and distribution conditions are frequently the cause for this trend in burdening the broker with details which were unknown to him 20 years ago. Because of these factors food brokers are obliged to do more and more work each year without a corresponding increase in the brokerage rates, which are today, in most cases, lower in scale than they were two decades ago.

Brokers Cannot Render Extra Service without Extra Compensation.—As a rule, the average principal shows little interest in the office routine of his broker and seldom makes an effort to see for himself how much work the broker is obliged to do in order to conduct the affairs of his establishment efficiently so that the principal will be the chief beneficiary. Many principals are inclined to take unreasonable advantage of a broker's willingness to serve, and ask his office to assume burdens which are, and should be, the direct responsibilities of the principal and should never be foisted on the broker.

If the actual costs of the broker's services to many principals were carefully calculated by expert accountants, the principals would be astonished at the amount of service they receive for what can be considered a bare pittance. It would surprise them to learn how their selling costs would be increased if they were obliged to shoulder these expenses by replacing the broker with a salaried resident salesman and by adding the office personnel required to supply the same type of service he demands of his broker.

At the risk of reiteration, this matter of the broker's service to his principals is introduced at this point because every added service the broker renders without extra remuneration presents a serious problem to him in the matter of keeping the overhead expenses of his establishment at a point where they do not actually exceed the total income. It can be observed that few brokers become rich in this business; the best the majority can hope for is a fair living.

When the broker's extraneous responsibilities and services are clearly recognized and appreciated, the fair-minded principal should be glad to increase the brokerage rates to an amount more consistent with the type of service he expects from his broker. It is to be trusted that more principals will give this matter attention as a protection to their own interests, since it is of the highest importance to the grocery industry and to the consuming public that the brokerage form of selling be maintained and not destroyed by those shortsighted individuals who expect everything in exchange for practically nothing.

Economy Is the Keynote in Operating a Broker's Office. Under present conditions, it is obvious that the broker's office must be managed as economically as possible and his bookkeeping methods must be of the simplest nature. Every short cut in the reduction of clerical effort must be made; all red tape must be eliminated. Investigations show that many brokers spend much thought in designing their office forms and in arranging the systems of accounting so that the time of the office staff will be saved and the required objectivities will be accomplished with the greatest economy of time and labor.

Simple as the fundamental office requirements seem to be, it is surprising what a vast amount of work is necessary in the office of the average broker. Since the office routine for all brokers follows a general pattern, it will best serve our purposes to describe in detail its various phases and to show how the departmental responsibilities are divided in the office of an active brokerage concern of a very large marketing center, such as New York City.

The Office of the Metropolitan Food Broker.—The food broker in the metropolitan market will have, perhaps, a large suite of offices. He may have as many as fifteen or twenty salesmen in the organization in order to canvass regularly the many buyers in such a large market. There may be one large room containing the desks for each of these salesmen, for each man will require storage space for his sales records, price lists, etc. There will be a private office for the owner of the business and perhaps others for the partners. There will be a room in which many stenographers are busy typing letters in answer to the large correspondence which is handled daily in such an establishment—letters from principals, orders received from buyers and requiring acknowledgment, shipping documents, claims, inquiries, and the many other matters pertaining to the business.

There will be a well-stocked sample room with display shelves on which are placed the samples of the products carried by the concern, with tables, running water, cutlery, pans, dishes, and all the necessary facilities for cutting and testing samples of foodstuffs. The office will have its private telephone exchange with extensions to the various offices and departments. There will be rooms for stationery and other office supplies, cloakrooms, and perhaps a room for general conferences. The bookkeeping department will have its quarters, where clerks are busy posting the records of the firm and taking care of the many details required in handling the accounts of numerous important principals.

The owner of the business, his partners, if any, and all the salesmen employed by the firm will be constantly in and out of this office, attending not only to the regular visits they must make to the many buyers all over the territory, but to the sales routine requirements within the office. Little time is wasted in canvassing, because the salesmen are all familiar with the buying hours of each individual buyer and so time their visits in the most efficient manner. The salesmen, as a rule, maintain regular schedules for covering the trade so that the various buyers can anticipate these visits. Daily itineraries are scrupulously followed whether the salesmen canvass the local city trade or are traveling through the country areas.

Compensation to Broker's Sales Personnel.—The salesmen employed by such a brokerage concern may be working on a salary basis, particularly if they are selling nationally advertised branded products which fluctuate little in price and which require continuous selling service. Salesmen who feature bulk items, such as sugar, rice, beans, dried fruits, and the like, may be employed on a commission basis and receive, as remuneration for their work, a part of the broker's original commission. The men who work on such a basis are generally given a drawing account of a fixed sum per week; at the end of every three or six months the accounts of these men are balanced and there is a settlement in full. If the man's earnings amount to less than he has received from his drawing account, a debit balance appears, and he is given an opportunity to make this up during the succeeding period or his drawing account is reduced to an amount more consistent with his average earnings. If he shows little future promise, he is released. A brokerage concern cannot afford to lose much money on its salesmen whether they work on a commission or on a salary basis, because such losses are serious deductions from the limited brokerage income of the organization.

If the brokerage concern is incorporated, salaries will be paid to the proprietor and his share-holding partners. At the end of definitely established periods the partners in the concern will receive, as dividends, their respective shares of the net profits resulting from the enterprise. There is little need in the brokerage business for large cash balances, because the business does not require capital for inventory purposes; consequently most of the net profits are distributed among the owners and just sufficient capital is kept in banks to meet current obligations in the management of the business and the salaries of the personnel.

Division of Accounts among Sales Personnel.—In a large brokerage concern the various accounts are generally divided among the salesmen, each man being more or less personally responsible for the sales of certain products. One man may specialize in sugar and will make the required contacts with all the sugar buyers in the territory; another may be responsible for the sale of one or more accounts of packaged goods; another for a nationally advertised branded product; and still others for the sale of rice, dried fruits, and so on. No matter how the accounts are divided, the proprietors must take an active and personal interest in every account held by the concern. They will exercise control over all the selling activities and will correlate the efforts of all the sales personnel so that the best possible representation is given to every account and detriment resulting from the loss of any particular salesman can be immediately rectified by some other man in the organization who has had training in the sales of all the accounts.

The sales burden does not fall solely on the shoulders of the salesmen who are employed by the concern. In most cases the proprietor and the partners, if any, are actively engaged in making their regular sales visits to the most important buyers. The owners of the business are frequently the most active in the sales work and most experienced in the art of selling, since it was due to their energies that the business grew and flourished, being built around their individualities. They are the instructors of the younger men who are taken in from time to time to augment the selling staff.

The sales efforts being subdivided among the sales personnel to the best possible advantage, there is then the matter of routing these salesmen so that they cover well-defined territories and visit all the buyers in their respective areas at frequent and regular intervals. Some brokerage concerns employ a general sales manager who supervises the activities of these men and is responsible for their productiveness.

Sales Meetings in the Broker's Office.—The large brokerage organization has sales meetings, sometimes daily or at least once each week. All the salesmen employed will attend these important meetings without fail. Here the various products handled by the organization will be discussed from all angles. New deals offered by the principals will be carefully explained so that the salesmen will be thoroughly familiar with all their details for presentation to the buyers. Samples of new products will be cut and tested. New accounts will be scrutinized and decisions made as to whether or not the firm should accept or reject representation for an account. Trade conditions will be analyzed. There will be an interchange of sales experiences. Sales campaigns will be planned. Advertising programs will be reviewed and studied. These meetings bring all the organization together at one time so that the policies of the firm and the selling programs are well known by every salesman.

Specialty or Missionary Salesmen.—At this point it is well to reiterate the fact that the broker's activities are confined to making sales only to the wholesale buyers of the products. It is not the food broker's role to make sales to retailers, but frequently it may be advantageous in the selling campaign, particularly when an initial distribution of the product in retail stores is desirable, to employ missionary or specialty men for such purpose. This particular function of making sales directly to the retailers has been described in full in Chapter 2. To provide a principal with such missionary service, many brokerage concerns employ a crew of specialty salesmen who have been trained by the broker for this type of "detail" sales work. A separate department is required in the broker's office for the proper supervision of such a crew. This department plans the schedules for the crew and keeps records of the costs of maintaining the service; the principal who uses this service will be billed by the department for the entire cost during the period the crew is engaged in working on his particular product.

Departmental Divisions.—A large brokerage establishment may have as many as seven separate and distinct departments in its offices. These departments and their functions can be briefly described as follows:

1. *The Contract Department.*—This department handles all the contracts made with buyers for deliveries of merchandise at a future date. It has been mentioned in this book that, very frequently, buyers will place such future orders with brokers. These orders are entered upon the broker's regular contract forms provided for this purpose, in which the buyer agrees to take a specific number of units of a product to be delivered by installments or in one shipment within a certain time specified in the contract. Since it is the duty of the contract department to handle the details of such orders, they are forwarded to this department by the salesmen who receive them from the buyers. In this department it is then usual to prepare three copies of such a contract: one to be sent to the buyer to confirm his order; one to be sent to the principal concerned so that he can produce the merchandise ordered and be prepared to make shipment of it to the buyer on the specified date; and one copy to be retained by the contract department for its records. If the order is for merchandise that is to be packed under the buyer's private label, additional work is required in seeing that the correct labels are sent promptly to the producer for this purpose. This department will then have

the responsibility of following up these orders to make sure that the proper shipments are made by the principal to the buyer on the specified date. The contracts are posted in a book in such a manner that shipments made from time to time by the producer against the contract are duly recorded and one can tell at a glance what balances are due any buyer on any unexpired and unfilled contract. These records must be accurate, for frequently the buyer will ask the broker about the status of his future contracts and the latter must be in a position to give an immediate and correct answer.

The broker does not receive his payment on such future sales until shipments have been made by the principal and invoices for them have been sent by the principal to the buyer. The broker receives copies of these invoices from the principal and uses them to post the shipments in the contract book. These invoice copies also serve him as a confirmation of the brokerage due him on each shipment as it is made and invoiced to the buyer.

The contract department has important responsibilities, and in the fulfillment of its duties it is obliged to co-operate closely with all the salesmen who are responsible for such future contracts and with the principals who are to ship the merchandise on the contract.

2. *The Accounting Department.*—To collect the commissions due the broker is one of the most essential functions of his office; consequently accurate records must be kept of all sales made for each principal's account and the earned brokerage computed. The large brokerage concern usually keeps a book of this type for the account of each principal. When a brokerage check covering all sales made in a specified period is received from a principal, the accounting department credits such principal's account with the payment, and in this manner and by these records the broker is assured that he has received in full the commissions due him on all sales made for the principal.

The accounting department deposits the income of the firm in the bank. It pays all salaries, expenses, and other charges required in the operation of the business. All this involves careful and accurate bookkeeping so that the financial affairs of the firm are kept in order. At the end of certain periods this department prepares the profit or loss statements of the operations of the business for the information of the owners or the shareholders.

This department should be able to show not only the sources of the total income of the firm but how much brokerage was received from each principal, the sales made for each account, the comparative sales from year to year, and all other statistics regarding the operations of the business, so that careful analyses of these operations are possible. With such statistics, the owners are able to appraise the income and net profit status of each account handled by the firm. If the costs of handling an account exceed the income from it, the brokerage concern should be aware of this situation and take steps to correct it.

3. *The Credit Department.*—The broker in a small marketing center may not have occasion to establish a credit department in his office, but the broker in a metropolitan center will be obliged to maintain one because many principals have warehouse stocks of merchandise in the large marketing areas for the purpose of making prompt shipments to local buyers. In another chapter the matter of these consigned stocks has received some attention, and there is no doubt that such a practice is advantageous not only to the principal but to the buyer. The broker, as has been explained, frequently has the full authority of the principal to make deliveries of such warehouse stocks to buyers. If the principal is located at a considerable distance from such stocks, it would require too much time to transfer the order from the buyer to the principal for his confirmation and then from the principal back to the broker before the latter could authorize the movement of merchandise from the warehouse. The purpose of maintaining

warehouse stocks is so that prompt deliveries can be made to buyers; consequently a delayed delivery would defeat the purpose.

Again it may mean much loss of time to inform the principal that certain merchandise has been delivered from the warehouse to a buyer and that the principal must now render an invoice for it. Because of this time factor in invoicing, which may interfere with cash discount policies, some brokers are authorized by principals to take the responsibility of rendering the invoices direct to the buyers who take deliveries of such warehouse stocks. This practice brings additional responsibilities to the broker's credit department, because in rendering the invoices for the principal's account the broker will be zealous in watching credits and payments, in collecting cash in advance where necessary from buyers who are slow in meeting such obligations, and in keeping in close contact with the local credit situation at all times.

When a broker accepts the privilege of rendering invoices for the principal, it should be clearly understood that he cannot assume the full responsibilities to any of his principals for the payments of accounts by customers. It is customary in the food industry that the broker and his credit department will act purely in an advisory capacity on credit extensions for the best benefit of his principals. It is obvious that he must limit his activities in this direction not only because he cannot accept the full responsibility of protecting his principals against credit losses but because any indiscretions on his part may reflect adversely against the credit standing of any one of his customers.

The credit department of large brokerage concerns is usually found by principals to be extremely trustworthy. As has been pointed out, the broker is in a unique position to appraise the credit responsibility of any buyer, because he is familiar with the relationships of any single buyer to a number of different principals. With this intelligence, which is always timely and up-to-date, the department will be the best possible source of credit information and can function perhaps more efficiently for the benefit of the principal than any other credit agency. For example, a local buyer may go into bankruptcy and before the news of this can come to the attention of a principal at a distant point, the principal may have made a shipment to the insolvent buyer under the impression that his credit was still good. The local broker could not have readily made such a mistake because he would be the first to know, in his daily contact with the trade, that a buyer is no longer entitled to credit privileges.

When a principal requests his broker to issue invoices to buyers under the circumstances herein described, the principal always pays the broker an extra remuneration to cover the exact cost of this service, or he increases the standard brokerage rate, which accomplishes the same purpose.

4. *The Billing Department.*—Since a broker is obliged in many instances to do the billing or invoicing for his principals in markets where warehouse stocks are maintained, the broker must install a billing department in his office, where these invoices can be prepared and issued. The broker usually has a standard form for this purpose or is supplied with forms prepared by the principal. An original and at least two copies of such invoices are prepared: the original goes to the buyer; one copy is sent to the principal for his records; the other is retained in the broker's office for postings, etc.

Payments made on such invoices by the customer can be made by check payable either to the principal or, if so authorized by him, to the broker. If the checks are made payable to the principal, the broker forwards them immediately to him with records of the transaction. If the broker is permitted to accept checks made payable to him, they are credited by the broker in his ledgers in the usual manner and the funds thus received are forwarded at periodic intervals by the broker to his principal. This involves extensive bookkeeping so that the records are kept clear and the broker can account to the principal for all monies received and all merchandise delivered from warehouse stocks.

The broker has a grave responsibility in handling funds for his principals and he accordingly must give the most careful attention to his records so that they will be free from error and confusion. The principal who requires such billing and collection services from his broker should be careful to extend this privilege only to those who have an established reputation for reliability and who are financially responsible.

The broker in making cash returns to his principal frequently deducts his own commission from the remittance, as this saves the principal the work of making out brokerage checks and statements for the commissions on these sales. When such deductions are made by the broker he should always prepare a fully detailed statement to accompany the net refund to justify any deductions.

It must be clearly understood that the broker is not buying or selling on his own account in this matter of invoicing for his principal. The merchandise in the warehouse from which the broker makes deliveries is always in the title of the principal and is never owned by the broker. Such ownership is prohibited by the provisions of the Robinson-Patman Act. Furthermore, the broker can make no extra profit for himself on such sales and deliveries. He sells the merchandise at the prices specified by his principal and his only remuneration is his regular brokerage on the sales. The broker's billing department is simply an extension of the principal's billing department to the broker's office; if the principal pays his broker for this extra service, the reimbursement covers only the actual costs incurred by the latter in maintaining the department. It is obvious that when a principal is located at a considerable distance from his warehouse stocks it is a great convenience for him to have the broker render the invoices to the purchasers of these spot stocks. Much time is saved and the principal benefits by a quick return of the money due him on sales so made. Only by the widest stretch of the imagination could this service on the part of the broker be construed to indicate that he is performing a jobber's function when he renders invoices under these conditions for his principal.

5. *The Stock Department.*—This department is responsible for keeping clear records of the various stocks on consignment in warehouses. When the principal consigns a shipment of merchandise to a public warehouse for the convenience of the local buyers, the broker's stock department makes a record of such shipment in books kept for this purpose. The broker checks with the proper officials regarding the arrival of such shipments at the warehouse. The stock department then credits the inventories of warehouse stocks when deliveries are made from them to buyers. The broker must know at all times what balances of unsold merchandise remain in the warehouse, that these stocks are being stored under the proper conditions, and that they are being delivered on his order to the proper buyers in the proper amounts. Although the responsibility for loss or damage of these stocks is in the hands of the warehouse company, the broker serves his principal in seeing that these stocks are kept in good condition and that deliveries are promptly made to the buyers who purchase them. Storage charges are paid by the principal, and the broker's records of warehouse stocks provide the justification for these charges.

6. *The Traffic Department.*—This department has to do with the movement of the merchandise in and out of the warehouse, or direct from the principal to the buyer. This department will make claims and follow up such claims to those responsible for losses or shortages in warehouse stocks.

How Pool Cars Are Handled by the Broker.—Many shipments are made in pool cars by one principal to a number of buyers, who can then benefit by the lower freight rate accorded a carload shipment. It is the duty of this department to unscramble these cars and see that deliveries are made from it to the various buyers in the proper quantities and that each of these buyers is billed for his proportionate share of the total freight charge on the car. Most pool car shipments are made on a freight-collect basis—that is, the freight is not prepaid by the shipper. In such cases the buyers must pay the hauling charges from the producer's plant to the buyer's city. Generally the broker who is responsible for the sale of the pool or combination car shipment will personally pay the total freight charges as soon as the car arrives at its destination, and will then invoice each buyer for his proportionate share. When collections on these freight charges are made by the broker from the various buyers he will then have been fully reimbursed for his outlay of cash to the carrier.

During the height of a shipping season, an active broker may have an expenditure of thousands of dollars in paying such freight charges for the convenience of buyers; but regardless of the cash outlay and the time required to reimburse himself from the various buyers, the broker makes no profit for himself in rendering this service. When a car arrives at its destination, much delay would be caused in the unloading were the broker obliged to visit every buyer who had merchandise in the car and to secure from him then his proportionate share of the freight expense. By the time the money was all collected the carrier would be obliged to make a demurrage charge for holding the car on the siding until the freight was paid in full.

The traffic department must also attend to the apportioning of the segregation charges among the various buyers when large shipments are received by water and steamship.

7. *The Sales Department.*—So many pages of this book have already been devoted to a description of the sales activities of a food broker that a repetition of it is unnecessary. From the angle of internal management, however, the sales department requires much attention and must be constantly supplied with material from the general office. Each salesman should be provided with a sales manual or folder containing price lists and quotations for all the items

produced by each of the broker's principals. The price lists must be kept constantly up-to-date. The salesman must have this book with him when he visits a buyer, so that he can give prompt quotations on any desired item. When revised price lists are received from a principal, every salesman must be apprised of the price changes and the new postings instantly placed in his sales folder. The salesmen will be obliged to communicate without delay with every buyer and inform him of the price changes.

Constant supervision of the activities of the sales department is of course essential. There must be no waste of time or lost motion in visiting all the buyers in a territory. Route schedules must be prepared for the various salesmen. Salesmen's trip reports must be analyzed. Traveling expense records must be computed. Automobiles used by salesmen must have service inspections and attention. Selling campaigns must be planned and executed. Sales statistics must be studied and analyzed to determine what progress is being made with the account of each principal. These are only a few of the many details requiring managerial attention.

The sales department must depend on the stenographic department for a large amount of typed material, such as inventory records of warehouse stocks, route schedules, copies of deals, and the like.

Broker's Bulletins to Buyers.—Many brokerage concerns print weekly bulletins of their offerings and mail them to every wholesale buyer in the territory. Such practice makes it necessary for the broker to maintain, in connection with the sales department, a mimeograph or multigraph department where these bulletins are prepared and mailed. Some brokers use very elaborate price lists which are printed on four or even more pages and which are sent to the wholesale buyers at regular intervals.

Additional Office Responsibilities.—In addition to the routine work required in a broker's office, which has been briefly covered in the descriptions of the various departmental activities, there is the matter of answering inquiries from consumers regarding branded products for which the broker is the local sales representative. The average broker in a large city daily receives letters and telephone inquiries from local consumers asking where such branded products can be purchased at retail. The broker must answer these questions promptly and courteously; frequently he has to inquire among local wholesale buyers until he can learn the addresses of retail stores where a product can be purchased.

There will also be the matter of replies to principals regarding competitive conditions in the broker's territory. The average broker must devote a lot of his time to the study of his market, so that he can give his principals the information they demand. This takes the broker into the field of market research; such investigations demand the time of many of the broker's associates and employees, yet it is a service which he renders his principal without charge.

The average broker will receive many letters from producers who are seeking representation in the marketing area in which the broker is located. If he is offered an account that conflicts with one for which he has representation, he will be obliged to answer the producer promptly, stating that he is unable to accept the account because of its competitive character. If the account does not conflict with his others, he will then consider the advisibility of accepting it for his territory. He may call a meeting of his associates and discuss the matter with them. If the vote is in the affirmative, the broker will then investigate the standing of the principal and the virtues of the product. He may tentatively accept the account on the condition that, after a test selling campaign to judge the potentialities of the product in the market, he will be privileged definitely to accept or reject the representation. All of these matters take time and effort. In the meantime the broker cannot neglect his active accounts and must be busy making the regular visits to all the buyers and giving each of his principals the best of his sales ability.

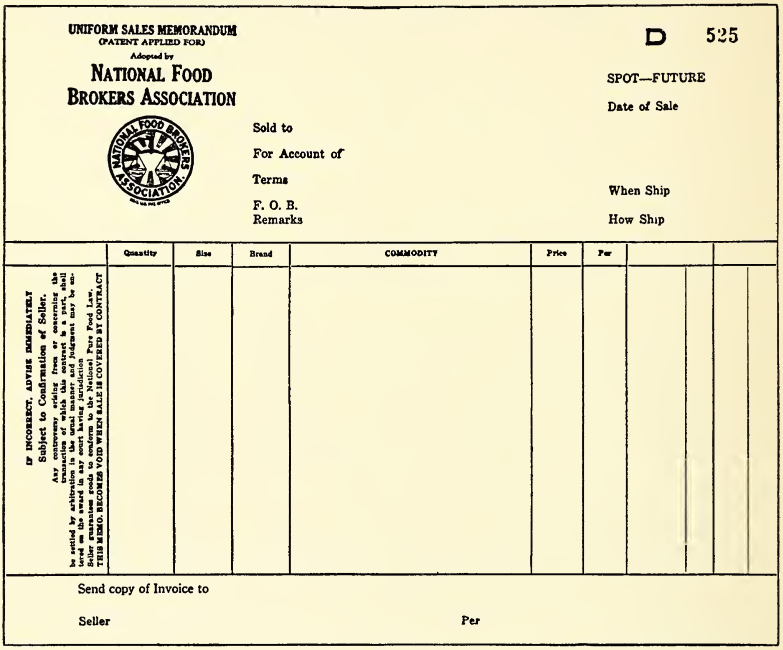
The Broker's Office in Minor Markets.—In the less important marketing centers the broker's office will be perhaps smaller than the type herein described and will require less personnel, but the general duties will be the same. There may be five or six people in the office, who, by dividing the various responsibilities among themselves, perform, in a simpler manner, all of the functions allocated to separate departments in the offices of the large brokers. No matter how small the brokerage office may be, the routine office work must be done; that this routine is important and cannot be neglected is only too apparent when it is analyzed.

Broker's Branch Offices.—Many brokerage concerns that cover a wide territory have branch offices in marketing centers within the area. Branch offices are generally in the charge of a manager who acts as an independent broker in his particular trading area. The records are all cleared, of course, through the main office. Frequently the personnel of these branches is quite large and the offices are obliged to render many of the services outlined in this chapter as a function of every brokerage office.

Major Expense Items in the Broker's Office.—A classification of the expense items connected with the maintenance of a brokerage office gives the following as the most important:

1. Rent for office space, including light, gas, and water charges.
2. Communication charges, such as telegrams, telephone calls, and postage, including the cost of preparing and mailing bulletins.
3. Salaries to officers and executives.
4. Salaries and drawing accounts to salesmen.
5. Salaries for office personnel, including clerks, etc.
6. Traveling expenses for all salesmen when engaged in making sales, including upkeep, maintenance, and depreciation of automobiles used by them for business purposes.
7. Traveling expenses for officers in connection with visits to principals and conventions.
8. Stationery and supplies.
9. Association dues, subscriptions to trade periodicals, contributions, etc.
10. Miscellaneous expenses not included in the above categories.

Office Forms.—Many systems are used by brokers for keeping the essential business records, and a great variety of printed forms exist for this purpose. It would require a large book to display the various forms used by brokers for warehouse stock records, brokerage statements, contracts, salesman's records, and the like. Each broker devises forms that best suit his own particular requirements. The purpose of every form is to simplify the office procedure so that a minimum of clerical help will be required to keep the records accurately in order that the broker may have a complete control of his operations at all times.



UNIFORM SALES MEMORANDUM
(PATENT APPLIED FOR)
Adopted by
NATIONAL FOOD
BROKERS ASSOCIATION

D 525

SPOT—FUTURE

Date of Sale

Sold to

For Account of

Terms

F. O. B.

Remarks

When Ship

How Ship

IF INCORRECT, ADVISE IMMEDIATELY

Subject to Confirmation of Seller.

Any controversy arising from or concerning the transaction of which this contract is a part, shall be settled by arbitration in the usual manner and judgment may be entered on the award in any court having jurisdiction

Seller guarantees goods to conform to the National Pure Food Law.

THIS MEMO. BECOMES VOID WHEN SALE IS COVERED BY CONTRACT

Quantity	Size	Brand	COMMODITY	Price	Per		

Send copy of Invoice to

Seller Per

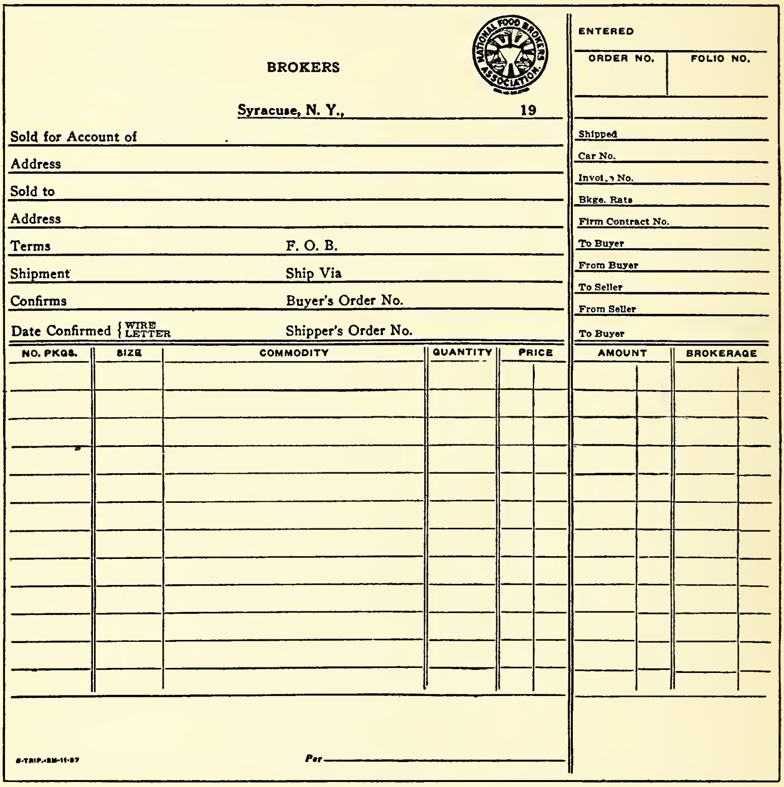
Exhibit 21.—Broker's Uniform Sales Memorandum adopted by National Food Brokers Association.

The Standard Order Form.—The most important form in every broker's office is the order sheet. Practically every broker uses a standard form that serves the dual purpose of reporting sales to principals and confirming orders received from buyers.

A standard form for this purpose has been devised by the National Food Brokers Association, a copy of which appears in Exhibit 21. An original and two copies are usually prepared: the original for the principal, who uses it as his authority to make shipment of the specified items and to render an invoice for such to the buyer; a copy for the buyer, which confirms his purchase of the merchandise at the prices indicated; the second copy for the broker's files. The broker's copy is generally placed in a file devoted solely to the principal to whom the original order was sent. When the broker receives a copy of the principal's invoice covering the sale, it is attached to the broker's copy of the original order to show a completion of the transaction as far as his office is concerned. The broker then has a complete record of each sales transaction for the account of each principal, which serves as a check against the brokerage payments made periodically by the various principals. The broker can tell how promptly his orders are being filled by keeping the files in this manner. It will be noticed that this standard form contains the arbitration clause adopted by the National Food Brokers Association.

Some few principals provide their brokers with special forms to be used in reporting sales.

Ingenious Special Order Forms.—Occasionally brokers devise special order forms, or "notes" as they are sometimes called, which they have found to answer their particular requirements better than the standard form. An interesting example is shown in Exhibit 22. This was devised by a broker to simplify his bookkeeping system. It will be noticed that the original serves as a record for the brokerage due on each order. An original and three copies of this form are prepared in reporting a sale. The original is retained by the broker and contains in the right-hand portion a complete record of brokerage due on the sale covered by the order as well as full data regarding shipments, dates of delivery, and brokerage rate. The copies that are sent to the principal and the confirmation copy to the buyer are perforated so that the data in the right-hand column regarding the broker's bookkeeping records and brokerage can be removed before they are mailed from the broker's office to the principal and the buyer. This form is displayed to show the ingenuity of the broker in devising short cuts in bookkeeping and office procedure.



NATIONAL FOOD BROKERS ASSOCIATION

BROKERS

Syracuse, N. Y., 19

Sold for Account of

Address

Sold to

Address

Terms F. O. B.

Shipment Ship Via

Confirms Buyer's Order No.

Date Confirmed {WIRE / LETTER Shipper's Order No.

NO. PKGS.	SIZE	COMMODITY	QUANTITY	PRICE	AMOUNT	BROKERAGE

8-TRIP.-2M-11-27

Per

ENTERED

ORDER NO.	FOLIO NO.

Shipped

Car No.

Invoice No.

Bkge. Rate

Firm Contract No.

To Buyer

From Buyer

To Seller

From Seller

To Buyer

EXHIBIT 22.—Special sales memorandum devised by a food broker for his particular requirements.

This brief outline of the manner in which the average food broker's office is conducted and maintained will show the responsibilities each broker incurs in the performance of his service to a principal. These responsibilities are all necessary in bringing the buyer and the seller together so that sales can be made. The services rendered by a broker in his sales capacity cannot be eliminated even if the broker is replaced by salaried salesmen. All sales require service of some nature, and these services cannot be dispensed with. When the broker assumes these services on his own initiative and relieves a principal of the necessary duties and the expenses connected with them, in exchange for a small brokerage payment, made only when and if a sale is effected, the broker is making a great contribution to the industry in keeping the costs of sales service at a very low point for the ultimate benefit of the millions of consumers.

CHAPTER 10

HOW THE BROKER SERVES THE GROCERY INDUSTRY

In the preceding chapters the broker's general functions have been considered, particularly as to the various kinds of sales service he is able to render a producer or manufacturer of packaged goods—by which is meant food or grocery items packed in popular-sized packages under trade names for the use of the average housewife or other consumer.

It has been shown that the food brokers of America are capable of securing a quick and complete distribution of grocery items at an extremely low selling cost in as many marketing areas as the producer may select. It has also been shown that the broker's selling service is extremely flexible and can accommodate itself to any sales contingency. It is now fitting that some descriptions be given of the unique and valuable services the food brokers of this nation are furnishing some of the important branches of the food industry, each of which has an individual sales problem to meet, and how the food brokers are fulfilling the important role of meeting these conditions and at the same time maintaining a state of equilibrium in the complex economic problems involved in the distribution of thousands of grocery products offered for sale to the American consuming public.

There are approximately 50,000 food and grocery manufacturers, processors, canners, refiners, converters, etc., in the United States. These producers draw upon the entire agricultural industry, the fisheries, and many of the natural resource industries for the raw materials they convert into products to be sold through grocery channels. They may pack salmon in Alaska or rattlesnake steaks in Florida, fruits in California and blueberries in Maine, tomatoes in Maryland or corn in Illinois, peas in Wisconsin and shrimp along the Gulf Coast. They convert the corn from the vast fields of the great Middle West into cornstarch or corn sirup, and the cottonseed from the cotton lands of the South into oil and oleomargarine. They convert millions of bushels of wheat into flour, cake mixtures, and a variety of breakfast foods. One need only examine carefully the numerous food products offered for sale in the average grocery store to bear witness to the fact that man's ingenuity has few limitations when it comes to producing things to eat. Every day finds some new product or some variation of an old product, all prepared and packaged in the most pleasing and appetizing manner, on the grocer's shelves ready to tempt the palate of the purchaser.

The Small Packer Could Not Exist without the Food Broker.—The vast majority of the producers of these myriad products are small as regards production facilities and capital resources. They produce this wealth of edibles and grocery items and must seek outlets for their production in all the markets of the country. Only a few are large enough to finance the fixed charges of a salaried sales force, and even many of these are obliged to use food brokers in markets that cannot be covered, for various reasons, in any other way. The great majority are obliged to depend solely on food brokers to act as their sales agents in all the marketing centers of this large country.

These small producers are mainly independent operators; they belong to no trade associations, but they preserve democracy in the food industry as long as they can enter the field with their products on a competitive basis with the financial giants in the market. The food brokers give these thousands of small independent producers a low-cost selling service that carries few obligations and without which they could not exist. In most instances this food-broker service could not possibly be duplicated; even a carefully trained and efficient salaried sales personnel could not cope with the situations inherent in some branches of the food industry, so that the broker is a vital necessity for the continuance of these particular operations.

The Small Packer's Valuable Contributions to the Food Industry.—The continued existence of these small producers is of vast importance to the welfare of the food industry because they are frequently the originators of new and valuable food products. They are often the pioneers in making new paths and in effecting new forms of food conservancy for the economic benefit and betterment of the nation's resources. It was a small producer who originated the idea of canning grapefruit; others are responsible for the fruit juices that are now so popular and found on every table. The entire history of the food industry is a chronicle of experimentation and the exercise of ingenuity in the creation of new and valuable products.

It would require a library of books to describe in detail this development work in almost every branch of the industry. Every item of prepared foods was first subjected to a vast amount of experimental work before it was perfected for human consumption; this experimental work is always going on and perhaps always will go on primarily in the workshop of some small operator, so long as people eat and purchase foodstuffs prepared and packed for their convenience.

These small producers also supply an endless source of competition, which engenders the exercise of all kinds of ingenuities in production and marketing methods, all of which are valuable in maintaining a dynamic force in the food industry and prevent it from ever being monopolized by a few powerful producers. The majority of the best known and most successful trade-marked food products on the market today were first created and introduced to the trade by small producers, who forged ahead and expanded until they have become important factors in the industry and now enjoy a distribution of their products throughout the land.

The Small Packer's Marketing Problems.—Many small producers are obliged to limit their production because of short growing seasons for the crops they require; many have production facilities for only a limited pack; others may have a restricted raw-material supply. For instance, it is possible for a canner of corn to operate his factory only during the few short weeks when that crop is maturing. His factory may be idle during the balance of the year. Under such limitations the selling costs must always be kept down to an absolute minimum; it would be an economic impossibility for such a producer to employ salaried salesmen to visit each and all the potential buyers. The sales season for many products is limited to just a few weeks or months out of the year, and this alone makes it impracticable for a small producer to employ salaried salesmen for such short periods. Furthermore, when such a small one-commodity producer is ready to sell his production, he is obliged to market it simultaneously in many distributing centers. To visit all of these markets at one time would require an army of salesmen, if they were employed for this purpose, and this army could be employed for only a few weeks or months, after which it would have to be demobilized. All of this would be a terrific expense to the producers, if the expense were not passed on to the consumer, the producer would be bankrupt and forced out of business.

The Valuable Service Rendered the Small Packer by the Food Broker.—The existence of the food broker prevents this economic insanity because through his selling services these thousands of small producers have at their command a resident salesman in every marketing center in America who can supply part-time service, in conjunction with his other selling activities at the moment it is needed, without obligating the producer to any selling expenses except the nominal commission these brokers ask in exchange for this timely service, and then only if and when an actual sale is made. Those who criticize the food broker as a useless middleman collecting an unwarranted toll in the stream of distribution are completely in the dark as to the needs of the thousands of small producers when it comes to marketing throughout the country the fruits of their endeavors. This criticism, which comes mainly from academic sources, proves only too conclusively that there is a pitiful ignorance in our colleges and schools regarding the thousands of ramifications and exigencies in the food industry.

The Food Broker Saves the American Public Millions of Dollars Annually.—It is perhaps difficult to visualize the thousands of small packing plants or canneries scattered all over America, in every agricultural district, packing the local crops as they mature, limited in respect to raw-material resources, working at high speed during a short season to pack the products before they deteriorate, and then the problem of distributing these canned products in every market in the country. If this complicated scene is clearly understood and appreciated, all unfair criticism of the food broker will disappear and he will be heralded as the life-saver of the food industry. How can a sales agency be criticized when it is able to perform the service of distributing these foods to every American market at a total cost of little more than the standard cash discount of 2 per cent, which most of us accept so lightly? It is appalling to think how many millions of dollars would be added to the food bill of America every year if the food brokers went on strike and refused their indispensable selling service.

In this chapter a few concrete examples will be given to show how the food broker serves the industry and how varied and flexible this service can be when it is called upon to meet the different conditions and circumstances that arise in the course of trade.

HOW THE FOOD BROKER SERVES THE PACKAGE INDUSTRY

In no field has the food broker a more brilliant record of performance than he has in the marketing of packaged foods. Such products usually require a year-round selling service keeping the broker busy at all times in securing and maintaining wholesale distribution. There are in this field, hundreds of outstanding examples of successful enterprises, all of which owe success solely to the food broker's sales efforts. Most of these enterprises started in business with limited capital. Few of the producers were able to afford introductory consumer advertising campaigns. Without the services of the food brokers, expansion of the business would have been impossible. They supplied the solution to the sales problems of these entrepreneurs. No capital was required to enlist the food broker's selling services. There were no dangers of capital losses in the maintenance of a salaried sales personnel. In most cases the brokers were given free rein in conducting their own sales campaigns. The producer could safely trust the marketing problems to his brokers and devote most of his time to production.

The launching of the enterprise was a simple procedure. The producer started his sales campaign by selecting as many food brokers as he needed in as many distributing centers. He sent these brokers samples of his product with price quotations, and in a short time sales were made for which a nominal commission was paid to the brokers who made the sales. As they became more accustomed to selling the product and mastered the sales technique, the orders for the product increased, and in no time the business was enjoying a large volume of sales and was firmly established. This is the typical history of thousands of successful enterprises in the food industry, and food brokers made such achievements possible.

How Food Brokers Marketed a New Line of Canned Meats.—A more detailed example is the case history of a packing concern which decided in 1932 to market a new line of canned meats through the regular grocery channels of distribution. This producer was at the time unknown to brokers, wholesalers, retailers, or consumers, for although a large responsible corporation, it had never before in its corporate history offered a food product under a trademarked name for general distribution through grocery channels. In addition to this handicap, the corporation made no provision for any type of consumer advertising to support the marketing efforts. The sales manager was expected to develop a national market for the products with no sales appropriations except his own salary and traveling expenses. He could employ no additional sales personnel to assist him in covering the trade of the entire United States, but was obliged to rely solely on his own sales ability and his wise selection of the proper food brokers to market the products successfully.

Few sales managers would have taken the assignment in the face of such obstacles, but this was a most excellent opportunity to test what could actually be accomplished through food brokers without any other help, and this sales manager's curiosity overbalanced handicaps which at first glance seemed unsurmountable. He was willing to risk his time and labor to test fully the sales capacities of food brokers. It should be added that he received no encouragement whatsoever from the executives of the corporation in this endeavor; it was felt that this was an attempt to achieve the impossible; but, on the other hand, this very apathy on the part of his employers served to give him a free rein to conduct the marketing of the product as he pleased with no interference, and he was accordingly able to follow his own judgment in the selection and appointment of brokers and in the planning of the entire sales campaign.

The first broker selected was located in New York City. He was fortunate in having many friends in the brokerage fraternity in the important marketing centers of the United States. Through the kind services and the good will of this particular broker the sales manager was able to communicate with other well-known and successful brokers in other marketing centers and secure their interest in the new line of canned meats.

Personal contacts with these newly appointed brokers brought suggestions from them for other brokerage arrangements in additional markets. With this kind co-operation from many brokers it required only six months to secure adequate brokerage representation in practically every important marketing center in the country. The sales manager then made it his duty to visit personally each and all of these brokers as time permitted. At first he spent several days with each broker, visiting local buyers with him and showing the brokers the special sales technique required to arouse the buyer's interest in the new line. In this manner, the various brokers who had had no previous selling experience with canned meats were soon trained to sell the line, and with these initial sales the broker's interest was awakened to the sales potentialities of the products.

Through constant traveling around the country with visits to each broker, working the trade with them, using a quota system to encourage the attainment of definite objectives in sales, building up good will, and making friends with his brokers, this sales manager had the satisfaction of seeing the volume of sales grow from absolute zero in 1932 to well over $700,000 in 1938—a period of only six years, some of which were depression years when most buyers were anxious to purchase little more than they actually required for current needs and were certainly averse to adding new lines of canned meats to their stocks. In fact, an examination of national trade conditions during this period of development would indicate little to encourage the growth of a new company in the food field. It was a period of retirements and constrictions instead of one in which the normal development of a business could have been expected.

This development is not even a true index of what the food broker could have accomplished in the space of these short six years. The volume of sales would have reached a much higher figure if the sales manager had been permitted to provide himself with field assistants in order to make more frequent calls on the appointed brokers and to visit additional buyers with them. This was not the fault of the brokers who sold the canned meats, but was due to the inability of the sales manager to make personal contacts with his brokers in every market in the United States with the necessary frequency. Again the results would have been better had any of the less expensive types of consumer advertising been used to support the selling effort. Furthermore there were times when orders came in from the brokers at so fast a rate that production facilities could not keep up with the sales, and as late as the winter of 1937 it was necessary to cancel orders for more than $70,000 worth of merchandise because the goods were not available for delivery.

The history of this development unquestionably proves that the food brokers of America are able to do a splendid selling job with little or no assistance in the form of consumer advertising or sales help from the principal. Most important of all is the fact that in this particular campaign the selling costs were at all times limited to not more than 5 per cent of the value of the merchandise sold, the only additional selling expenses being the fixed salary and the traveling expenses of the sales manager.

How the Broker Serves the Canner.—There could be no better way to show how the food broker comes to the assistance of the small canner of foodstuffs than to give an example of the multitudinous services he renders—for example, to a small canner of corn. This canner may be located in Maine, because in this state there is a distinctive style of packing sweet corn which meets with consumer acceptance in practically every state in the Union. The customers of this packer may be in any one of the 48 states. His maximum production may be as small as 50,000 cases, each containing 24 standard tins, all of which must be obtained in a few weeks in midsummer when the sweet corn is exactly in the right condition for canning.

With this limited production, a salaried sales force would be out of the question; yet this packer must dispose of his product in markets that are scattered all over the United

States. It is obvious that it would require many salesmen to visit all of the wholesale buyers in the 2,132 cities which are marketing centers. By the time the salesmen had made their visits to the many potential buyers the prices of canned corn might have fluctuated to such an extent that the packer would lose money on his pack, assuming that his greatest profits depended on the promptness with which he marketed the production.

Let it now be assumed that this canner appoints 30 brokers in as many marketing centers. These, he may feel, are sufficient to sell his limited output. He now has 30 resident salesmen at his command on short notice. He is obliged to pay them no salaries. He knows in advance exactly what his selling costs will be, and he takes no risks with fixed sales expenditure. At a time prior to the packing season he has notified all these brokers as to what he expects to pack and sell. Immediately these sales representatives—the food brokers—canvass their respective markets, offering the product of the canner to the various buyers. On an active market the entire prospective pack may be sold in one day by such a group. If the market is inactive or prices are too low, the canner may proceed with packing operations with the expectation of selling from time to time throughout the year at better prices. Whenever he decides to sell, he has a sales force ready to go to work for him. In the interim these brokers are keeping him informed daily as to the condition of the market, what competitors are offering, the production of other corn-packing districts throughout the country, and other situations upon which the canner may base his conclusions as to when to sell and at what price. This valuable and timely information service costs the packer nothing—it is a part of the service the food broker is willing to render his principal.

When the canner announces his prices, five of his brokers may each sell 10,000 cases at once. His total pack will then have been sold. His total selling cost has not exceeded 5 per cent of the dollar value of the sales. He will be obliged to pay this brokerage only to the five brokers who have made the sales. The other brokers will then have no further offerings to make from this particular account, and the canner will be under no obligations to them regardless of the sales information service he may have received from them prior to or during the sales campaign. Such risks are accepted and expected by the food brokers. Perhaps in the following year some of the other brokers will make sales for this principal; therefore they will all continue to represent him, each regarding the account as a potential source of income. It is for such reasons as these that the food broker is obliged to represent a number of principals, so that he will have some merchandise to offer his various buyers in the event any of the producers sell out their production before his market demands are fully satisfied.

In representing these canners, the broker, treating both large and small poducers alike, displays the merchandise to the buyers without prejudice. The broker quotes the prices to the buyer and ascertains his requirements. If the buyer feels that the price at which the product is offered is higher than that quoted by similar canners, he may make an offer at a lower figure, which the broker may submit to his principal. The broker will add such comments as he believes may be helpful to the principal in reaching his decisions on the offer. The broker will know if others are offering the same grade at a lower price and if the potential supply and demand is such that a quick sale will avert the possibility of selling in an over-supplied and lower market at a later date. Or again, if, when the offer is submitted, the broker feels that no others are quoting or even willing to quote at a lower price, or if his knowledge of the supply and demand is such as to convince him that the available supply will be inadequate and that higher prices are possible later on, his recommendations to his principal will be governed accordingly.

Canned foods are generally highly competitive commodities. Prices are extremely fluid and sensitive to influences that make them vary widely and quickly according to crop and weather conditions. Other factors, which are unforeseen and largely uncontrollable, may affect the market. The broker will keep both his principals and his buyers fully informed at all times as to these conditions. The buyer needs this information as well as the canner, and if the broker did not exist to supply such important data, both the packer and the buyer would be at a great loss and both would be obliged to employ additional personnel to obtain the essential marketing data, which the broker acquires in his visits to the trade.

The broker will advise the canner principal about the proper sizes to pack, the quality likely to be needed in the local market, and the general local competitive conditions as they develop. Such information has a value that cannot be measured in dollars and cents by the canner, who is confined to his scene of packing operations and cannot be in and out of every marketing center on the same day at the same time. A canner who has brokers in 100 distributing centers scattered all over the United States has a comprehensive view of national conditions from the daily advices he receives from these resident brokerage representatives.

When the sale is made the broker's work is only partly completed. The sale, for example, may call for a substantial quantity of the product for delivery over a period of weeks or months. In that event the broker's services continue in obtaining and transmitting the shipping instructions from buyer to principal. Frequently these orders are for canned foods to be packed under a buyer's private label, in which event another service may have to be performed by the broker in seeing that an adequate supply of special labels is prepared and that they are forwarded to the canner in due season.

How the Food Broker Serves the Principal in Matters Requiring Arbitration.—It sometimes happens that the product delivered impresses the buyer as being unequal to the samples on which the purchase was based, or of a lower grade of quality than the one described in the purchase order or contract. In that event the food broker has another service to perform. If, in his opinion, the buyer's claim is not justified, he must try to prevail upon him to accept and pay for the merchandise. If, on the other hand, he agrees with the buyer that the delivery is not up to the standard or agreed quality he will try to prevail upon the packer to make a substitute delivery or such adjustment as may be fair in order to satisfy the buyer. Failing in either of these attempts to effect a satisfactory adjustment, the broker's alternative is to prevail upon both parties in the dispute to submit their controversy to arbitration. If the broker were not on the spot to attempt such adjustments of differences of opinion, the principal would be obliged to spend his time and money in traveling around the country settling disputes with buyers, which are bound to occur with products as difficult to appraise, in regard to specific quality, as canned foods.

The National Uniform Arbitration Plan.—In the grocery industry there is a National Uniform Arbitration Plan in effect. It was established in 1913 upon the initiative of the National Food Brokers Association, with the co-operation of the National Canners Association, the Dried Fruit Association of California, and the two leading associations of wholesale grocers. This plan created boards for arbitration in some 60 large distributing centers, strategically located from a geographical standpoint. Each board has at least six members—three distributors and three food brokers, the latter to represent generally the seller's interest. In the event of dispute, three members of the board—two buyers and one broker, or vice versa—having no direct interest in the matter under discussion are appointed by the chairman to settle the question.

It is interesting to note that no court has ever upset the decisions of these arbitration boards. Members of the National Food Brokers Association subscribe, of course, to this arbitration plan and most of them mention it in a printed paragraph on all contractual forms.

Finally there is the added service sometimes required and performed by the broker in forwarding credit information to the principal and in aiding his principal in the collection of overdue accounts. Many of the small canners are unable to afford to subscribe to the services of a credit agency or to maintain a credit department, and consequently are obliged to depend on the broker for information along this line.

This brief recapitulation of some of the many services rendered the thousands of small canners of vegetables, fruits, and the like, together with the aid many such producers in certain districts receive from the field or primary market broker and his associated brokers, is sufficient proof that the great majority of these packers owe their existence to the food broker. They could not possibly remain in business without his services. The broker functions in the most efficient manner in securing markets for these small packers throughout the United States with such a small compensation for his valuable services that it borders almost on the miraculous; if the consumer finds the shelves of his corner grocery store filled with food delicacies produced in all four corners of our great country and offered at reasonable prices to fit almost any family budget, he is indebted to the food brokers for this happy condition which caters to every possible taste and fancy in foods.

HOW THE BROKER SERVES THE DRIED-FRUIT PACKER

Assume that a dried-fruit packer appoints food brokers for his products in the markets of the United States. The brokers proceed with their sales efforts in a manner similar to that used when selling canned foods. They show the buyer samples of the products and quote prices. The dried-fruit packer, however, offers a variety of items, such as peaches, apricots, prunes, raisins, pears, figs, etc. This variety is of advantage to both the broker and the buyer because it saves the latter the necessity of purchasing large stocks of a single item since the sales of dried fruits are generally in units of carloads. With such a variety available from a single packer, the buyer can order a carload containing some of each of the six or more fruits. This avoids overstocking and insures fresh merchandise.

How the Broker Serves Both Principal and Buyer through Consigned Stocks of Merchandise.—It is with items of carload classification that the broker, as part of the complete selling service expected of him by both sellers and buyers, may occasionally carry consigned stocks in a limited way. For example, a broker may secure orders from a number of buyers for dried fruits, but the total may not be sufficient to make up the required weight for a carload shipment. His market at the time does not need and will not buy a sufficient quantity of assorted dried fruits to complete the carload weight. With 10 or 20 per cent lacking, sometimes even more, he requests the shipper to include the necessary weight to make up the car, consigning such excess stocks to the broker. Thus the principal has enough orders on hand, including the broker's personal requisition, for a complete carload, which he can then ship. In this manner the buyers receive their orders promptly and are not compelled to pay the prohibitively higher "less-than-carload" freight rates. The broker's consigned stocks are then placed in a warehouse to be sold later when the buyers require additional merchandise. The buyer receives the advantage of the carload freight rate on his purchases of these warehouse stocks, paying only the slight extra charges for warehouse storage and handling, which charges amount to much less than the cost of freight on a less-than-carload shipment. So again the buyer benefits from these consigned stocks.

The Robinson-Patman Act and Consigned Stocks.—Before the Robinson-Patman Act was passed, it was customary for the broker to buy the excess stocks in a carload shipment, so that the packer would realize payment in full at once on the complete shipment. The broker was accordingly invoiced by the packer for all excess merchandise included in the car. The broker made this purchase simply as a convenience to both the buyer and the seller, and when the opportunity came to dispose of the merchandise for which he was invoiced, he sold it to the buyers at the absolute cost price, adding only the storage and handling charges. The only profit accruing to him was his actual brokerage on the sale. Since this practice has been outlawed, the packer is now obliged to consign the stocks, which remain his property until they are sold and delivered to a buyer. Many principals were unwilling to ship merchandise on consignment, so the broker had no alternative except to make the purchase of excess stocks himself. To meet the condition of the Robinson-Patman Act, all principals are now obliged to accept the responsibility of making consigned stocks to the brokers. Only in this way can they meet the competition of those principals who do carry such stocks, as a regular policy, for "spot" or immediate delivery without obliging these buyers to await the completion of weight for a shipment of a solid carload of the merchandise into the market.

The Broker's Service in Effecting Pool Car Shipments.—More than with any other lines handled by food brokers, dried fruits are sold in "pool" cars. By that term is meant a carload shipment of merchandise destined for several buyers in one marketing center. The assembling of these pool cars represents hard sales effort and extra work for the broker. If one of his customers needs 500 boxes of prunes and no more, the broker must canvass his trade in order to find other buyers who want prunes at this time or who need some other dried-fruit item from the same source of supply. The broker must procure sufficient orders to make up the quantities required for at least the minimum carload weight, so that the shipment may come forward promptly. If he cannot complete the carload, no shipments can be made, and he receives nothing for his work from the principal. Consequently his selling efforts have produced no results.

Dried fruit is sold in well understood and established grades, such as "Fancy," "Choice," and "Standard." Because of these recognized grades, of variations in the condition and quality of the fruit, and of differences due to the localities in which the fruit is grown and dried, disputes frequently arise upon delivery. The broker must serve to adjust such claims or bring about a settlement between the buyer and the seller. For this arbitration service the broker receives no remuneration from his principal, but assumes this probable extra burden of responsibility when he accepts the principal's account.

Since the bulk of the dried-fruit pack originates on the Pacific coast, it is obvious that in this industry, as in the canning industry, it would be impossible for the producers to use traveling salaried salesmen to cover all the markets in the nation and to be in each and every one of these markets when buyers are ready to make purchases. Hence, the food broker functions for the dried-fruit packers as a resident salesman ready to serve them on every occasion in every market when his services are required; he also provides the packer with market information. For all this service he is paid only when and if he completes a sale.

HOW THE BROKER SERVES THE BEAN DEALER

Most of the beans produced in America are sold through brokers, who act as the sales agents for the various dealers. Bean dealers are those who buy from the farmers and re-pick the beans, *i.e.*, hand-pick them to remove foreign matter such as sticks, stones, and earth and to cull out the defective and discolored ones.

The bean business is extremely competitive. Keen competition exists between the dealers themselves and between different sections of the country, as well as locally in the various markets. The markets for beans fluctuate widely, being extremely sensitive to conditions of supply and demand, to weather, or to other effects on the crops. With such rapidly changing conditions and the highly competitive nature of the business, the bean dealer must have sales representatives in the various markets at all times to show samples typical of the exact lots in hand in every grade of quality.

The operating margins of profit are so narrowly restricted by the rapidly fluctuating markets that it is out of the question for him to employ salaried traveling salesmen. These men could not move fast enough to keep up with the changing markets. The bean dealer can pay for sales service only when and if rendered, and so is compelled to use the food broker for distribution purposes. As a result his sales cost is but a few cents a bag, and then only after the business has been produced.

In the average food broker's office it is almost a daily occurrence for a telegram from the bean dealer to arrive with the latest quotations for the different varieties. The broker has no time to lose. He rushes to the telephone or hastily prepares telegrams to the important bean buyers in his market, informing them immediately of the price changes. If the prices are advantageous, orders are booked at once and are telegraphed back to the dealer.

HOW THE BROKER SERVES THE RICE MILLER

Because rice production and milling are limited to Texas, Louisiana, Arkansas, and California and because rice is sold throughout the entire United States, the millers of this grain must look to food brokers for the sales service required to market the item. Profits in this industry are small and quality of product varies greatly. Almost all rice is sold by samples taken from each actual lot offered. As in other small-profit industries, the miller cannot afford to employ salaried traveling salesmen, yet he is obliged to have a representative in every marketing center. This agent must be well informed about the various qualities and grades of rice and must always be ready to show samples of the particular lots available to prospective buyers at the time such lots are ready for sale. Competition in this field is very keen and the market is sensitive and subject to many price fluctuations. The prices may vary as little as one-eighth of a cent a pound to cover quality variations due to the size of the grain, color, broken-grain content, etc. This situation applies mainly to bulk rice in bags. Rice is, however, also packaged. Sales of the packaged product are subject to special conditions because it is generally sold under a trade name, thus bringing the item, when so packed, into the class of a branded grocery specialty.

Under these conditions of narrow profit, a wide market, and constantly changing prices, the food brokers, acting as resident salesmen for the rice millers in every marketing center in America, again come to the rescue of the industry and give a distributing service at an extremely low cost that cannot be replaced or equaled by any other method of distribution.

HOW THE BROKER SERVES THE SUGAR REFINER

Refined sugar in the United States is sold exclusively through food brokers. An enormous tonnage of sugar passes through their hands each year. Selling methods peculiar to the industry impose upon the sugar brokers additional duties different from those required by the other bulk products, which have been briefly outlined in this chapter.

Refined sugar is customarily sold on "moves," *i.e.*, market changes. The market is particularly sensitive to the matter of supply and demand. So far as cane sugar is concerned, the basic price for the raw material is beyond the control of this country. Domestic sugars (beet sugars and a limited amount of Southern-grown cane sugar) respond to the market for cane sugars. When there is an impending advance in the market, it is usually known or anticipated for a few hours only, and the refiner must have a broker in every market in which business is desired, so that all buyers may be reached in a very short time and their requirements for the ensuing 30 or 60 days, entered under contract for delivery as desired within that time, at the going price.

Without the brokers in the field, the sugar refiner would be compelled to have at least one salesman in every market to be covered, and there may be as many as 2,132 of these in the country which the refiner wishes to serve and from which he desires business. After a day or two of frantic activity on the part of these salesmen, there may be no need for sales service for another month or two. Into such a situation the broker fits perfectly because he can render just the prompt service the industry demands. He receives a very small brokerage or commission on every bag of sugar he sells and he is paid only when the sale is actually completed. During the period between offerings the broker has time to attend to the matter of deliveries on the sales contracts, either direct from the refinery or from the consigned stocks in the broker's territory.

Sugar consignments are treated largely as are those of other commodities. The broker orders shipments from the refinery or delivers from consigned stocks to apply against purchase contracts entered into by the buyers at the time of the move. The broker's daily contacts with the various buyers enables him to keep the refiner informed as to the movement of the stock into consumption, to keep deliveries moving forward as the sugar is needed, and to obtain and forward new orders from the buyers as contracts are completed between the moves.

Since competition within the industry is very keen, since there is but little difference in the quality of sugar, and since each refiner endeavors to have a sales representative in every important distributing market, a food broker representing such an account is continuously busy. Yet, with this as with other staple items, his sole compensation is a few cents per 100-pound bag when the sugar is sold and delivered, regardless of all the extra activities connected with the consignments and the deliveries as well as the telephone and telegraph expenses incurred by the broker in promptly informing his buyers on the frequent sugar moves.

HOW THE BROKER SERVES THE BUYER

After the brief recapitulation of how the food broker serves the various typical branches of the food industry, it may not be amiss to consider his service to the buyers for the thousands of wholesalers and chain-store organizations who market the numberless grocery items to the retail stores. It is reported that the president of one of the national associations of wholesale grocers once said, in an address before a convention of food brokers, that the grocery buyer could not exist without the services performed by the food broker. He said, in effect, that were it not for the brokers in a given market, calling daily on the grocery buyers, each broker representing many principals in every line and bringing to the buyer news of the conditions of all of these markets, it would be a necessity for every buyer to set up for himself, within his own organization, a fact-finding department to assemble the news of the market. The expense of a department such as would approximate in value the service the food broker now performs would be prohibitive, and even then the data assembled would be incomplete and therefore worse than useless.

This more or less covers the view of every wholesale buyer in the country, whether he represents a wholesaler of grocery products or a chain-store system. Buyers in both these categories are dependent on the food broker's specialized knowledge of markets and trade conditions, and without him they would be at a complete loss to know what and when to buy. The food broker accordingly acts as a stabilizer or regulator in this vast food field, functioning as an efficient mediator between buyer and seller, serving at the same time as a sales representative for his principals, and rendering these important services at so small a cost that his share of the distribution expenses for grocery items is almost negligible. Again it must be emphasized that if the food broker ceased to function, the cost to the American public could be measured only in terms of millions of dollars, because there are no substitutes for this service.

CHAPTER 11

ADVERTISING CAMPAIGNS AND THE FOOD BROKER

Advertising is a very broad subject in itself, and no attempt will be made in this book to analyze the advantages or disadvantages of any type of advertising media or program. There are many excellent books available that cover the subject in every detail. This chapter on advertising, particularly the types of advertising used in the food industry, is included in this book because many principals who contemplate the use of food brokers for their sales campaign, instead of salaried salesmen, will question how an advertising program can be affected by marketing through independent sales representatives.

The Broker Can Contribute Much to the Planning of the Campaign.—It has been shown over and over again in this book that food brokers can function in a sales capacity with distinction and that they are fully equipped to give every possible kind of sales service; consequently the employment of food brokers should not harm in the least any advertising plans contemplated by the producer or his advertising agency. On the contrary, the food broker has so many valuable contributions to make to an advertising program and his services can be used to such good effect in the execution of it that he can be most helpful in procuring for his principal the greatest value from advertising appropriations.

It is true that the food broker, since he frequently sells staples and bulk products that require little or no advertising support, is accustomed to carry on his merchandising work without the aid of publicity, and the food brokers of America have marketed with great success many items that have had no such support. When little or no advertising publicity is used to aid the sales of a product, all the emphasis is placed on salesmanship; consequently the salesmanship must be of a high order to bring desirable results. If the food brokers have been successful in marketing products without the benefit of advertising, it is a distinct tribute to their sales ability.

An example is given, in Chapter 10 of this book, of the nation-wide marketing of a new line of branded canned meats through food brokers, where they created a business which, in six years, grew from zero to a sales volume in excess of $700,000 annually. In this particular campaign no consumer advertising was used by the principal at any time; but this did not deter the brokers in their selling efforts and in spite of the absence of advertising support they were able to procure a wide distribution of the products and to create a substantial volume of sales showing a steady growth each year.

Food Brokers Welcome Advertising Support.—If the food broker can successfully market grocery products that are not advertised, there are no reasons why his efforts cannot be more effective when some publicity is used to augment sales. Hundreds of advertised products are being sold through food brokers, many of which are advertised nationally through magazines, radio broadcasts, and other media. The food broker is experienced with advertised products and fully recognizes the benefits to be derived from intelligent forms of publicity. Indeed the broker has a selfish interest in anything that will improve and foster the sales of the product he is handling, and since he is the only selling agency of such a product in his particular marketing area, any increase in demand brought about through an advertising program will directly benefit his earnings and make such an account of greater value to him.

Narrow Profits in Food Industry Limit Advertising Appropriations.—The margin of gross profit on grocery products, particularly food items of a staple character, is seldom large enough to permit broad advertising campaigns. In the food and grocery industry the element of crop and weather hazards in the production and conservation of seasonal products has an elementary effect on the resale price structure that makes the fixing of a broad profit margin, in contemplation of advertising or other promotional services, practically impossible. This narrow margin of gross profit is also conditioned by the intense competition in the field and by the important factor of substitution.

The overwhelming type of advertising campaign that is frequently used to exploit a patent medicine or a branded cosmetic is seldom possible with food products. The gross profit margins in the production and sale of patent medicines and cosmetics are always much greater than those on foods, because the former have what may be termed a distinctive or individual appeal transcending the competitive factor by their monopolistic character, whereas foods are easily replaced with others that may have an equal taste appeal and similar nutritive value. For instance, a consumer may be convinced by publicity that the *B* brand of tonic will grow hair faster and better than any other on the market; with this conviction, he will purchase that brand and no other. When it comes, however, to a choice of two brands of canned salmon, the same consumer may purchase indifferently either of them if they both satisfy his taste and sight idiosyncrasies.

In view of these important considerations the advertising budget of the food producer must be relatively modest, and the sums appropriated for publicity to create consumer demand and acceptance must be used to the greatest advantage in order to bring maximum results. Any waste in such expenditures cannot be tolerated, and great care must be exercised in the advertising of foods so that the media selected will bring about a fulfillment of this objective of maximum results from minimum expenditures.

A survey of the advertising policies of the average producer of foods and grocery products indicates that the advertising appropriations range from 1 to 5 per cent of the sales volume, and these expenditures are made only for exploiting branded or trade-marked products in which the producer or principal possesses a proprietary interest. The larger percentage may be used when the product is first introduced on the market, in order to arouse consumer interest promptly and to act as an impetus on the initial sales activities, and it may continue until the product is firmly established on the market and has favorable acceptance. The appropriations are then gradually diminished until a condition is reached where the minimum amounts are appropriated that will insure a steady and healthy increase in the sales volume from year to year.

Functions of the Advertising Agency.—The producer who advertises his products will invariably place the entire responsibility for publicity in the hands of an advertising agency; he may employ an advertising manager to function as a liaison officer between the selling organization and the agency. The functions of the agency will be to make market surveys for testing consumer acceptance of the product, to recommend advertising media to be used in the program, to prepare the copy, to see that the advertising plans and schedules are properly and faithfully carried out, and to keep the total expenditures within the limits of the appropriated sums.

Co-operation between Broker and Advertising Agency.—There must always be a very close relationship between the sales campaign and the advertising program. Since the purpose of all advertising is to stimulate sales, the one is dependent on the other. The advertising agency must be thoroughly familiar with the nature, the extent, and the objectives of the sales activities; the sales department, in turn, must know how its activities are to be supported by the advertising program. The closest harmony is therefore essential between the two activities if they are to coincide and serve the best interests of the producer.

If food brokers constitute the selling agency, it will be necessary for the advertiser, the advertising agency, and the food brokers to work closely together for the success of the sales and publicity programs. The food broker's specialized knowledge of trade conditions and of the food habits of his particular marketing area will serve to good advantage in planning the campaign. His knowledge of his local market goes beyond the immediate job of selling. In handling a diversified number of products he is of necessity compelled to make a close study of the consumer potentialities in his market, including race characteristics, the various food habits, and the buying approach.

The average broker, particularly the one who handles specialties, has, over a period of years, worked under advertising campaigns covering a variety of products, has learned the possible results to be secured through certain media and the local distributors' reaction to each type of medium, and has obtained some knowledge of consumer preference. He has witnessed successes and failures. His relationships with buyers give him first-hand information as to the effectiveness of certain types of advertising. With this extensive knowledge of his local market and its potentialities, the broker can be of great assistance in planning the advertising program. He should gladly co-operate to the best of his ability, and his contributions should be solicited and respected.

When the advertising program has been completed and approved, the brokers should be informed as to all the details: when the program will be put into operation and how the advertising and selling activities are to be co-ordinated. The broker can then arrange his sales plans so that they will coincide with the advertising program and the maximum results achieved.

The advertising manager of the principal or a representative of the advertising agency should always keep in constant touch with all the appointed brokers. Visits to them should be frequent during the course of an advertising campaign; by such contacts a valuable relationship will be established between the advertising and the sales departments of the business. Many producers arrange to have representatives of their advertising agencies attend the annual conventions of the National Food Brokers Association. Here the agency representative can meet the principal's brokers and discuss with them the publicity plans for the coming year and check with them on the results obtained through previous campaigns.

The agency representative should frequently visit the trading areas of the various brokers so that he can study personally the effects of certain types of advertising in the broker's territory. The broker should welcome these visits and do all he can to assist in the investigations. This is the type of co-operation that produces the maximum results in synchronizing the selling and the advertising activities.

Choice of Advertising Media.—There are a large number of media to be used for the purpose of advertising grocery products and foodstuffs. The choice of them frequently depends on the size of the area in which the advertising campaign is to be conducted. For example, a producer who wishes to confine his marketing efforts to New England would certainly not advertise in a magazine with a large national circulation. If such a periodical were used, the principal would be paying for a lot of circulation that could not be of any direct benefit to him. Advertisements are of real value only when the consumer who is impressed with the claims can purchase the product in a near-by retail store.

The selection of media will also depend largely on the type of product to be advertised. If it is a food product, the advertising appeal will, in most cases, be directed to the housewife, since she is the one generally responsible for the food purchases of the household; accordingly media should be selected that best serve the territorial limitations and come to the attention of the greatest number of potential customers.

A brief review of the various types of advertising media generally used in the food industry will demonstrate how the food broker can be of great assistance to the producer in making an advertising program effective and successful.

Sampling.—Many producers of foodstuffs use sampling as a means of securing consumer interest in their wares. Sample packages are prepared, perhaps smaller than the standard package, to be distributed either by the retailer in his store, by direct mail to lists of selected potential customers, or by delivery from door to door. The samples are, of course, gratis. If they are to be distributed by the retailer, the local broker can see to it that retailers secure the required samples, either directly from the broker or through the jobber with whom the broker will make the necessary arrangements for their distribution.

If the broker distributes the samples directly to the retailer, he may use missionary salesmen for this work and should be reimbursed by the principal for the cost of rendering this extra service. If the samples are to be mailed directly to a list of potential customers, these same salesmen can make arrangements with local retailers for the preparation of lists to contain the names and addresses of likely purchasers who patronize their stores. If the samples are to be distributed from door to door in selected cities or towns, the broker will undoubtedly be familiar with a local concern that makes a specialty of this type of distribution; he can then supervise the work of such a distributing company for the benefit of his principal and see to it that the samples are placed only in those neighborhoods of the city where they will do the greatest amount of good.

The One-cent Sale.—Akin to sampling is the innovation known as the "one-cent" sale. This is sampling pure and simple, since in such sales the consumer is able to purchase a second full-sized package for the price of one cent at the time he purchases a package at the standard price. In other words, he receives two standard packages for the price of one plus the one-cent extra charge.

When such sales are used, the broker will see to it that the local wholesalers and chains stock the proper combinations for distribution to the retail grocers and that the retailers in turn offer the deal to their customers. Such deals are generally arranged by missionary salesmen who visit the retailers and solicit orders for them through the local jobbers; again, if missionary salesmen are used, the broker should be reimbursed by the principal for the use of these men during the time they are engaged on his account.

These deals, and others involving the use of merchandise, are generally limited in time; when the deal has expired, the missionary salesmen can see to it that all unsold merchandise is reconverted into standard packages to be sold as such at the standard price. The local broker should supervise the work of the missionary salesmen and see to it that the local wholesale distributors have sufficient stock on hand at all times to fill promptly all orders from retailers.

Demonstrations.—Demonstrations can also be included under the category of sampling, because in this way the consumer is permitted to taste the product. Demonstrations are generally conducted in the larger and more popular retail establishments. A girl is usually employed to conduct them and is supplied with the proper equipment to make the demonstrations in an appealing manner to the many potential customers who come into the store where she is temporarily located.

Campaigns of this nature are effective provided the proper type of demonstrator is employed, because it will be her duty not only to give people a taste of the product, but to try to make a sale at the time the sample is offered. The demonstrator must therefore possess sales ability as well as a pleasing personality, to make her services worth while. The local food broker knows many successful demonstrators who, no doubt, reside in his own city. Perhaps he has employed them on previous occasions for some of his principals and has had ample opportunity to prove their abilities. The local broker is the logical person to hire such demonstrators for the use of his principals, to see that they are placed in the best local retail stores, and to supervise their activities.

Co-operative Advertising.—This is a type of advertising conducted jointly by the producer or a number of producers and a local retail chain-store organization. Practically every type of retail grocery-store chain group, whether it is a voluntary group of retailers, a group of retailers sponsored by a local jobber, or a corporate chain, uses local advertising, which usually takes three forms: window posters or streamers, handbills for distribution, or newspaper copy.

The style of the copy is determined by the retail group and is generally distinctive in character. Although the streamers or window strips may be limited to featuring just one product, the handbills and the newspaper copy are divided into a number of spaces, large and small, any of which are available to the producer for the inclusion of his advertisement at a fixed price depending on the amount of space used and the number of times the copy is to be repeated by him.

These media are used for featuring the weekly special sales. A survey of these forms indicates that they are quite popular with producers. In fact the use of these media is often instrumental in obtaining the good will of the retail organization and in enlisting the support of these chain groups in featuring the products of the advertiser. Just a glance at the weekly food advertisements of a local chain grocery group in the newspaper of any large city will prove to the reader that this form of publicity is used by many producers, as can be seen from the number of well-known branded products that appear in these advertisements.

This form of advertising is relatively inexpensive on the basis of newspaper circulation because the local chain-store groups receive the benefit of local space rates from the newspapers, which rates are invariably lower than the rates to the national advertisers. Furthermore, such advertisements leave no doubt in the mind of the potential buyer as to just where he can purchase the products he sees in them.

The Food Broker and Co-operative Advertisements.—Most food brokers have had considerable experience with co-operative advertisements. When they are used, the food broker is on the spot to conduct the negotiations for the space with the retailer groups, most of which are direct buyers whom the broker visits at frequent intervals. Such advertisements lose force if the merchandise mentioned is not to be found by the consumer in the stores featuring the advertisement. The broker, when he arranges to use such co-operative advertising with the consent and approval of his principal, will of course see to it that every store in the chain group has stocked the item in sufficient quantities to meet any consumer demand created by this publicity. The broker is in the most favorable position to see that the contracts for such advertising are fulfilled by the chain organization and to check on the results attained by this type of publicity.

Newspaper Advertisements.—Newspapers, because of their large local circulation, are used for intensive local advertising campaigns. They possess the advantage of mass circulation confined to one marketing area. When local newspaper campaigns are conducted, the broker in the territory should be fully informed regarding the nature of the copy to be used and the dates of appearance. Some newspapers in the large cities have promotional men who make it their business to visit retail establishments in connection with an advertising campaign that may be about to appear in the newspapers or is in progress. These men seek to arouse the retailers' interest in the product being advertised and frequently make a check on local distribution. The newspaper promotional staff, if it exists, should contact the local broker who is responsible for the sale of the advertised product, so that he can co-operate to the fullest extent in seeing that every wholesale distributor has stocks of the advertised product ample to supply the demand.

The broker should always be provided with a portfolio containing specimens of the advertisements to appear in the local newspapers, so that he can display them to the various buyers in his area and enlist their interest in stocking the product prior to the newspaper advertising campaign. Buyers frequently refuse to stock a new product and invest their money in such merchandise unless they have assurance that the producer will advertise it and so create sufficient consumer demand to insure a quick movement of the product from the distributor's warehouse. This reluctance to buy can be largely overcome by an impressive display of the copy to be used in the local advertising campaign. The broker should be in a position to make such a display to the buyers and to inform them as to all of the details of the prospective campaign. After the campaign has been launched, the broker will be on the spot every day to ascertain the effectiveness of the advertisements, and he will be within call of every wholesale buyer who may require additional supplies of the product to meet promptly the demand that has been created.

If the producer needs specialty salesmen to secure a wide distribution of the product in the retail stores while the advertising campaign is in progress, the local broker will in most cases be able to supply the producer with such men, as has been indicated in another chapter of this book, or he can supervise the sales activities of any specialty crews the producer may send into the broker's district.

Magazine Advertisements.—Most of the magazines in America have a national circulation; consequently this medium can be used to advantage only by producers who enjoy a national distribution of their wares. If a producer has a national distribution, he will have, no doubt, brokerage representation in every important marketing center of the country. Each broker should accordingly be informed in full about such an advertising campaign and should be provided with a portfolio showing proofs of the copy to appear as well as a list of the various magazines to be used in the campaign. He should also be provided with statistics showing the circulation of the selected magazines in his particular marketing area. With such information the broker will be in a position to explain the campaign to local buyers and convince them from the circulation figures that the campaign will undoubtedly influence a large number of consumers in the area, so that it will be advantageous to stock the product in sufficient quantities to take care of the consumer demand that will be created. The fact that the broker is at the immediate call of all of the buyers in the area to supply their requirements again demonstrates the advantages that a resident salesman can confer on the principal who uses his services.

The traveling salaried salesman cannot contact all the important markets simultaneously on the eve of a national advertising campaign, unless the principal employs an army of such men; this can, however, be accomplished in short order by having brokerage representation in every marketing center. A telegram can be sent to each and every broker by the principal, and simultaneously every broker in every marketing center will be ready for duty.

Radio Broadcasts.—Advertising by radio possesses the combined advantages of both local newspapers and national magazines. If the advertising is to be confined to a certain limited territory, the local broadcasting station can be used to convey the message. If the campaign is planned to include broader areas, other stations can be added as the territory increases in size. If the point is reached where national hookups are desirable, the radio chain using the same program can be extended until it covers the entire nation.

If radio advertising is used in the campaign, whether the program be just a spot announcement or a full hour of entertainment, every broker in the districts where radio is to be used should have advance knowledge of the nature of the program, the time when the broadcast can be heard, the schedule to be used, and statistics relative to the audience of the station. This information is best supplied to the broker in the form of a bulletin so that he can show it to local distributors and enlist their interest in the campaign. The broker can be instructed to question local listeners on the effectiveness of the program, and being on the spot he will have every opportunity, in the course of his business visits, to learn the reactions of the audience to the broadcast and to measure its effectiveness from the additional orders received from the wholesale buyers of the product so advertised.

Billboard or Outdoor Advertisements.—Some advertisers prefer this type of publicity, and not only use billboards along the highways, but seek good locations on the side walls or roofs of centrally located buildings where the signs can be seen by everybody on the streets. Advertisements on buildings require negotiations with the owners of the building or with a local bill-posting or sign-painting company. The local broker is in an excellent position to arrange for such sites. He can procure estimates for his principal from local sign painters or bill hangers to supply these locations with advertising copy. Knowing his city, he will be aware of the most advantageous positions for such signs. All of these contributions on the part of the broker are helpful to the producer who uses his services for such constructive purposes.

Car Cards.—The replacement of the electric trolley car by motor vehicles in many cities and towns has not materially affected the use of car cards for advertising food products. Motor buses are displaying such cards in the same manner as they are used on electric trams. Car cards are used for restricted campaigns, since the transportation service is confined mainly to local areas. In a city like New York, where millions ride daily on the subways, the car cards assume great importance, and the New York subway systems provide not only space in the cars for the displays, but also poster space in the stations. Many cities are still dependent on electric rapid transit to convey people from the business centers to their homes in the suburbs. Where such forms of transportation are popular, the car cards offer good advertising possibilities. The local broker is in an excellent position to check up on the effectiveness of this type of local advertising.

The Broker Can Easily Check on Advertising Results.—The local broker is in fact most capable of checking up on the effectiveness of any types of advertising that are confined to or influence his territory. This measurement of results from advertising campaigns is made almost automatically in his office. Inasmuch as the broker is the only sales representative of the producer in the area, all the demands for the product will pass through his office. If the advertising campaign has "pulling power," the broker will be aware of it through the increase in orders he is receiving from the buyers. If the broker keeps a record of local sales for a definite period prior to the campaign, for the same period during it, and for the same period after it, he will have an automatic record of what has been accomplished in the way of increasing the volume of sales. The producer, by comparing the monthly commission statements prepared for each broker, can also judge at a glance how effective any advertising campaign is in any particular territory.

Store Display Signs.—Many producers depend only on an attractive display sign to create consumer interest in their products. Such a sign may be large or small; it may hang on the wall of the retail store or it may be placed on the counter or used as window trim. If such material is used, the local broker can see to its proper distribution among the retail stores in his area. He can make arrangements for window displays; he can instruct the retailer how to make the best use of the displays, or he may go so far as to trim a window himself as a model for other retail stores. Arrangements for window displays are made with the retailers in the local community. The broker knows the best locations and is acquainted with the most popular retail stores. With his co-operation the producer will secure window displays that will be effective instruments in creating a local interest in his product.

Frequently the carton in which the product is packed is designed to be used for counter display purposes. In this case the broker can show the display carton to the wholesale buyers and convince them of its "pulling power" so that they will in turn pass on this information to their retail customers; if the wholesaler uses salesmen to visit the retail stores, they can be instructed to see that the retailer uses the carton in the manner for which it was designed. Often the broker will have the opportunity to attend the sales meetings which are held at frequent intervals by wholesale grocers. Here he can address the jobber's salesmen and explain to them the advantages of a deal his principal is using or demonstrate how display material is to be used in a store. This contact of the local broker with the jobber's salesmen cannot help but work to the advantage of the principal.

Summary.—With only these very brief descriptions of the various types of advertising media used in the grocery industry, it will be seen that the food broker is an important contributing factor in practically every instance to make the advertising more effective. While the broker is qualified to perform a great many of the services in co-operation with an advertising campaign as outlined in this chapter, many of his services should be regarded as extraordinary duties and functions subject to separate compensation. It is obvious that a broker cannot go into the detail of store displays, retail contacts, and such promotional work without special compensation over and above the regular rate of commission on his sales. Brokerage rates have been fixed on the basis of making sales to wholesalers and chain-store warehouses or headquarters. They are not sufficient to justify the broker in extending his activities beyond that field. Therefore when the broker is requested to co-operate more or less extensively in an advertising campaign, especially if such assistance should take him into the realm of the retailer, it should be upon the basis of special, separate, and additional compensation for the additional work. The broker generally has the facilities and the personnel for these special duties and can supply the extra services to a principal at a low cost; therefore the principal should avail himself of this co-operative service and make use of these facilities.

This brief survey of advertising media and how such advertising can be effectively furthered by the broker's assistance should be sufficient evidence that he does not fall short in respect to co-operating with an advertising campaign. The producer who markets his products through food brokers can have every assurance that his advertising ambitions and aims will have the enthusiatic support of every broker he appoints to serve as his sales representative.

CHAPTER 12

THE FOOD INDUSTRY IN GENERAL

America's Largest Industry.—In production values, the food industry is the largest in the United States. A comparison of the total production values for the various important industrial groups in this country during 1935 is shown in the following summary:

Food and kindred products	$9,526,810,000
Textiles and their products	6,604,036,429
Transportation equipment	4,305,628,515
Iron and steel, excluding machinery	4,265,327,155
Machinery	3,816,331,680
Chemicals and allied products	2,837,315,314
Petroleum and coal products	2,464,274,367
Printing, publishing, and allied industries	2,164,995,207
Nonferrous metals and their products	1,668,561,121
Forest products	1,662,220,620
Paper and allied products	1,523,186,440
Leather and its manufactures	1,224,431,165
Stone, clay, and glass products	946,479,957
Rubber products	677,659,111
Railroad repair shops	420,097,165
Miscellaneous industries	2,211,746,694

In 1935 there were 48,936 establishments in the United States manufacturing or processing food and kindred products; they employed approximately 800,000 workers who were paid that year almost $800,000,000 in wages.

The products of these establishments are, for the greater part, sold in approximately 530,000 retail stores, which employ more than 750,000 workers with a total annual pay roll in excess of $650,000,000.

Excluding restaurants and other purchasers of foodstuffs and including the employees of 5,000 or more wholesale grocers, the food industry employs more than 1,700,000 people, engaged in production and distribution, with an annual pay roll exceeding $1,500,000,000. To this must be added the laborers on the farms and in the fisheries—sources from which the industry procures a great part of its raw material—and the workers in the tin-plate, the tin-can, the glass, and the paper and printing industries, all of which annually supply to the food industry products valued at many millions of dollars for the packaging of its products.

It is estimated that the 530,000 retail food stores have annual sales in excess of $9,000,000,000. Since the number of retail stores of all descriptions in the entire country totals approximately 1,700,000, it is evident that almost one-third of them are stores in which food products are sold.

For the year 1935 these food and specialty stores were subdivided as follows:

Type of retail store	Number of establishments	Total sales in 1935
Combination meat and grocery	166,233	$4,149,813,000
Grocery (no meats)	188,738	2,202,607,000
General store with food	66,701	1,110,403,000
Dairy products and milk	16,380	576,351,000
Meat market	32,555	565,640,000
Candy and confectionery	55,197	314,467,000
Fruit and vegetables	32,632	215,965,000
Bakeries and caterers	14,150	99,908,000
Delicatessen	6,554	88,708,000
Egg and poultry	5,747	52,404,000
Fish market	6,919	46,811,000
Other foods	6,905	49,751,000

It is estimated that the retail grocery stores, combination and otherwise, including the general stores, which are of direct interest to the food brokers as outlets for food and grocery items number about 440,000, of which 395,000 are independent merchants who do about 66 per cent of the total retail grocery business and 45,000 are chain-store units making 34 per cent of the sales of food and grocery products.

The 395,000 independent retail grocery stores are serviced by about 5,000 wholesale grocery firms located in every marketing center in the country, or they make purchases directly from the producer as voluntary groups. Of these 395,000 stores, 280,000 are unaffiliated, 83,000 are in 521 groups of the wholesaler-sponsored type, 25,000 are in 161 groups of the retailer-owned chain classification, and 2,500 belong to 71 co-operative groups. The 45,000 chain-store units are operated by approximately 800 corporate organizations.

The Food Broker's Potential Buyers.—Including direct-buying bakers, wholesale druggists who handle some grocery and food items, packers who require materials for production purposes, and others who are entitled to purchase at wholesale prices, the 1,500 general food brokers of America have as potential customers a total of at least 7,000 wholesale buyers whom these brokers will canvass for the purpose of making sales of grocery and food items for principals, processors, converters, manufacturers, etc.

It is only natural that in such a great industry there are many dynamic forces at work, many complications, constantly shifting methods of distribution, new developments, and, last but not least, many abuses and violations of what are generally considered ethical rules of business conduct. It is impossible to see how these abuses have crept into the industry until a brief outline is presented showing the various steps in the development of the industry from its infancy in the United States to its present commanding position.

The Retail Grocery Store.—In tracing this development we must start with the retail grocery store, which exists today as it has during the entire economic development of this country, at every crossroads and in every village, town, and city. At first these stores were owned and operated by independent merchants, each owning his own place. The chain store was unknown. The proprietor invested some money in a stock of groceries and opened up his little store to serve the people in its vicinity. To it came the neighboring folk to purchase their grocery requirements or to trade products they made for those handled by the grocer. These retail grocerymen frequently extended long-term credit to their customers and made deliveries from store to home when possible. Such services cost him some money, but the extra costs were added to the resale price he received for his merchandise; consequently his profit markup was high and ranged from perhaps 20 to as much as 40 per cent.

To supply his retail establishment with needed merchandise, this retailer depended on the wholesalers or jobbers of grocery products operating in the area in which his store was located. Once a week, or perhaps as often as twice a week, the retailer would be visited by salesmen from these grocery jobbers, who would solicit his orders for supplies. These jobbers were in contact with the producers of grocery products and were able to supply the retailer with almost any kind or brand of merchandise he required to satisfy the demands of his customers.

Just as there was competition among the retailers for the trade of the consumer, so was there competition between the jobbers for the retailer's orders. If one jobber could not supply the retailer with certain needed items, some other jobber would be sure to have them. The average retailer, accordingly, may have had dealings with more than one jobbing house, but his purchases from them were in small quantities, a case or more of this item and a few bags of that. His store was not large, and his purchases were necessarily limited by the space available for storage purposes. Furthermore, with his limited trade, he was obliged to keep his stocks fresh and permit no losses from deterioration.

The Grocery Jobber or Wholesaler.—Scattered all over the country in practically every center of distribution were the full line wholesale grocers or jobbers, for the terms are synonymous in the food industry, who were in business to supply the independent retail grocery stores with their requirements. These wholesalers employed salesmen to canvass the stores regularly, and in addition to soliciting the retailer's order these salesmen made cash collections from the retailer of the money due the wholesaler on previous receipts of merchandise. The wholesaler generally extended liberal credit privileges to his customers and provided a delivery service from his warehouse to the retailer's store.

The wholesaler was invariably also an independent merchant who invested his funds in a warehouse and filled it with merchandise he purchased on his own account from the producers. He would store this merchandise in his warehouse at his own risk and sell it as fast as he could to the retailers. He made his profit because he purchased his stocks in large quantities and resold in smaller units at higher prices to the retailers; but from these profits he was obliged to pay all the overhead required to conduct these operations and render these services.

The jobber's warehouse stocks consisted of branded products for which a local demand had been created through advertising on the part of the producer, of staple items of canned vegetables and fruits which were perhaps packed under the jobber's private label, of many bulk products, and of the thousand and one assorted items for which he had demands.

Salesmen and food brokers, representing many manufacturers and packers, visited these jobbers frequently, securing orders for their respective products. The various producers or principals then shipped the required merchandise directly to the jobber; if he was well established financially he might pay the invoices in ten days to get a cash discount, so that he provided the principals with a quick cash return for their products. The jobber, particularly, welcomed the food brokers because they generally represented in a sales capacity a number of producers, and having many contacts these brokers could keep the jobber fully informed with news of the industry.

This picture has not changed, so far as the independent retailers and the independent jobbers are concerned, for the past 75 years, as can be seen from the vast number of independent retail stores still in existence and the presence today of jobbers in every marketing center. These are still the main channels of distribution for the bulk of grocery products sold in this country, but there have been many new developments and short cuts in the channels of distribution as the industry grew in importance and volume. The survival of this time-honored simple method of distribution from producer to jobber, from jobber to retailer, indicates that there must be good reasons for this plan in the keen struggle for existence in this dynamic industry.

The Jobber's Role as a Distributor of Food Products.—It might be asked at this point why the producer or principal did not ignore the existence of the jobber and sell his products directly to the retailer without passing them through the hands of the wholesaler. The answer to this is that few producers were large enough to handle the sales of their products by such a short cut. To sell directly to the retailers would have required a large sales force to canvass regularly the thousands of retail stores in hundreds of towns and cities. Since the shipments to these retailers are in small units, the delivery costs would be prohibitive. When a jobber makes a delivery to a retailer it usually consists of the products of a number of producers, when the producer makes deliveries of just his own product they are apt to be quite small and very expensive to make.

When the jobber's salesman sells to a retailer, on one visit, the products of many producers, the cost of the service is distributed over these many products; the entire burden of maintaining a salesman will fall on the producer who employs one to sell only his product. This will greatly increase the cost of making sales. Direct sales to the retail stores also entail a vast amount of accounting and collection work on the part of the producer, and he would be obliged in many centers to establish and maintain, on his own responsibility, a warehouse from which prompt shipments could be made to the many retailers. Instead of eliminating the jobber, the producer, in reality, would take on the functions of a wholesaler. It would be only a substitution, and it might cost the producer far more than the profit demanded by the jobber for rendering the same service. Furthermore the jobber's overhead is spread over the products of hundreds of principals for whom he is rendering a distribution service; whereas the producer who maintains his own distributing warehouse must place this entire burden on just his own products.

Comparisons between Jobber and Direct Distribution.—It might be well to put the two methods of distribution—jobber versus direct—on opposite sides of a recapitulation to see how they balance from the economic viewpoint of the producer.

When a Producer Sells His Products to the Wholesaler:	When the Producer Sells His Products Directly to the Retailer:
1. He receives prompt cash for his sales giving a quick return of his working capital.	1. He extends credit to many retail customers and has his capital frozen in warehouse stocks.
2. He has a minimum number of accounts in his ledgers and uses a small clerical staff.	2. He has a multitude of small accounts in his ledgers and must maintain a large clerical staff and collection department.
3. He requires only a few salesmen who contact only wholesalers.	3. He requires a large crew of salaried salesmen in every city and town.
4. He saves warehousing costs. The jobber does the warehousing.	4. He must maintain at his own expense warehouses in many marketing centers.
5. He makes large-order deliveries to wholesale purchasers only.	5. He must deliver in small units to thousands of small retailers.
6. He can employ food brokers to sell his products with a fixed selling cost.	6. Food brokers will not sell to the retail merchants.
7. He can control sales through the use of specialty salesmen who can be moved from territory to territory.	7. He may use salesmen who function as specialty salesmen, but who are permanently attached to each territory.

Can the Jobber Be Eliminated?—When the above comparisons are analyzed and the costs of these various services compared, it will be seen that the jobber or wholesaler has a genuine economic justification for his existence. It is implied, over and over again, especially in academic circles, that the wholesaler is a useless cog in the wheel of distribution. Services, however, are required in every field of endeavor, and if the jobber's facilities are not used to supply the necessary services of distribution, then they must be performed by the producer. Can the producer render this distribution service at a lower cost than the jobber? This is doubtful because the selling costs of the few producers who do market directly to the retail trade seem to be higher, from the evidence at hand, than the jobber usually asks.

If the producer sells directly to the retailer in a small and limited area he may be able to keep the distribution service costs at a low point, but when his products have a wide distribution in many areas over this broad land, the matter of distribution becomes more complicated. Only those producers with a vast capital structure can afford to eliminate the jobber, and even then the economies which this may seem to effect are debatable. If the jobber is eliminated, thousands of smaller producers will be deprived of the opportunity for marketing their wares in many markets.

The Jobber's Costs of Operation.—Are the jobber's costs of rendering this important service of distribution excessive for the character of the work? These distribution costs were studied by the United States Department of Commerce, and it was found that the average grocery jobber's costs of operation are about as shown in the table on p. 274.

If a wholesaler's net profit on total sales is 5 per cent or as little as 3 per cent he is far from dissatisfied. Can the producer carry on the functions of a jobber at a total cost of 13.21 per cent, which is 3 per cent more than the average jobber's costs of operation? If the average jobber has an operating cost of 10.21 per cent, as shown on the detailed statement, are there any items in his overhead that could be eliminated by the producer when he accepts the jobber's

Item	Per cent of total expenses	Per cent of total sales
Selling expense:		
Managers and salesmen	19.84	
Traveling expenses	2.69	
Advertising	0.24	
Supplies for salesmen's cars	1.41	
Maintenance and depreciation of cars	1.73	
Unclassified	0.02	
Total	25.94	2.65
Warehouse expense:		
Receiving and shipping clerks	3.08	
Warehousemen	4.08	
Shipping supplies	0.06	
Rent	3.46	
Insurance, taxes, and interest	23.30	
Maintenance of buildings and fixtures	0.28	
Unclassified	0.50	
Total	34.77	3.55
Delivery expense:		
Truckmen	4.08	
Supplies for trucks	1.90	
Maintenance and depreciation on trucks	2.30	
Garage rent	0.24	
Freight prepayments	1.62	
Total	10.14	1.03
Office expense:		
Clerical	7.62	
Postage	0.94	
Telephone and telegraph	0.64	
Office supplies	1.48	
Depreciation of fixtures and equipment	0.61	
Total	11.29	1.15
Credit expense:		
Credit loss	4.96	
Collection expenses	0.21	
Total	5.17	0.53
Administration expenses:		
Salaries for executives	10.66	
Traveling expenses for executives	0.41	
Legal	0.45	
Dues and subscriptions	0.66	
Unclassified	0.51	
Total	12.69	1.30
Grand Total	100.00	10.21

responsibilities? These are challenging questions, and the answers, if not in the affirmative, blast the argument that the jobber is a useless middleman and can be eliminated from the channels of distribution. One source of information gives the cost of selling biscuits and crackers at 22 per cent of total sales; this is cited because the great majority of bakeries sell their products directly to the retail stores without passing them through the hands of the jobber. It is noteworthy that many producers, in fact, the great majority of them, including those who have ample capital to establish warehouses for selling directly to the retailer, continue to sell their products to the jobber and use his facilities for distribution purposes; they do this because they have found no economies to be effected by eliminating him.

The Jobber Cannot Show Partiality to Certain Producers. The popular criticism directed by a few producers against the wholesale grocer is that he does not pay enough particular attention or place special stress on the sales of their brands. When the average jobber stores in his warehouse the products of hundreds of producers, it is rather presumptuous to expect him to discriminate between them, especially if his profit return is no greater with one than with another. The jobber is not in business to serve only one producer. The economics of his operations depend on his selling many products and, as a result, his total operating costs are spread among many producers, to the benefit of all alike.

The Jobber As an Exclusive Distributor for the Producer. Frequently a jobber's personal interest can be secured by giving him the exclusive distribution rights for a product in his trading area. Many producers select certain jobbers for this purpose. A jobber will give preferential treatment to products for which he is the exclusive distributor. It should be remembered that competition among the various jobbers for the retailer's orders encourages price cutting among them, especially on nationally advertised branded products;

when the jobber's normal profits are reduced by such factors he is naturally not much interested in selling merchandise on which he is sure to lose money. When a jobber is the exclusive distributor for a producer, competition and price cutting are eliminated and he can make his normal profits, since he is the only local source of supply.

The Genesis of the Chain Grocery Store.—The field remained in the hands of the independent jobbers and the independent retailers, functioning in the manner outlined, until the coming of the retail grocery chain store. The idea underlying this development is a very simple one. A prosperous retailer decides that he can operate more than one store. He then buys out a competitor or establishes a second store. The combined profits from the two stores enable him to open a third, and then a fourth, and in no time a chain is born. With the combined purchasing power of these stores the entrepreneur may ultimately open up a warehouse for servicing the stores of his chain and, when he has sufficient purchasing power to warrant the privilege, he will purchase his requirements in large quantities directly from the producer and so eliminate the jobber as a source of supply.

Enterprising retail merchants in many cities put this idea into effect, and grocery chains soon appeared all over the country. It was of course an urban movement, since concentration of retail units was essential to success. The wholesalers were unquestionably disturbed by these developments, because every time a chain matured to a size that warranted direct purchasing privileges from the producers, these wholesalers lost customers. The wholesalers naturally appealed to the producers, requesting them not to sell directly to the chains because this was establishing a precedent that might ultimately bring chaos into a smooth-working system of distribution. But the orders awaiting the producer from large chains were generally too attractive to turn down, and so many producers placed these chains on the direct buying lists. These privileges of direct buying further encouraged the establishment of more and larger chains, until they began to command an important place in the retail distribution of food and grocery items.

The Overhead Expenses of the Chain Stores.—Because of their purchasing power, these chains were able to buy their requirements from producers at the same prices paid by the wholesalers. However, the differential which was saved by eliminating the jobber's profit was not all net profit to them, and the savings could not be passed on in their entirety by way of lower resale prices to the customers who patronized the chain stores. The differential seldom exceeded 15 per cent, from which were deducted all the administration and service costs heretofore included as part of the jobber's service. The elimination of the jobber by the chain did not result in an elimination of many of his functions. A warehouse for storing large purchases of merchandise was essential; the maintenance of warehouse and retail store inventories requires a substantial investment; personnel was required for accounting and inventory control purposes; buyers and warehousemen had to be employed and supervisors engaged; delivery service from warehouse to retail units had to be provided. All of these costs absorbed much of the profit saved through eliminating the jobber. On the other hand the grocery chains, early in their development, adopted cash-and-carry methods in their retail stores and by eliminating credit risks and delivery charges were able to effect some economies in operating costs.

The Giant Chains.—Some of these eventually became so large that they could count their retail units located in cities and towns in a great number of the states in terms of hundreds and even thousands. In time, this expansive development, unquestionably, gave these giant chains great power. For example, a chain operating a thousand or more units, might desire to open fifty or more stores in a city heretofore not included in its activities. It would be possible for such an organization to sell merchandise at retail in these new stores at prices much lower than actual cost until all the independent retail competitors in that section were driven out of business and the entire city left open for the monopolization of the chain organization. The losses on these fifty stores, until all local competition was destroyed, could easily be absorbed by the profits from the hundreds of units operating in other cities. Supported by thousands of profitable units, a large chain corporation could ultimately wipe out all independent competition and have a virtual monopoly on the retail merchandising of grocery products. This power may never have been used, but its potentialities were always present.

Because of the widespread distribution of their retail units, these giant chains presented a formidable competitive factor, in many marketing centers, to the wholesale grocers by jeopardizing the existence of their independent retail customers. Furthermore, when these corporations reached a giant size, they had tremendous buying power and were in a position to force producers, who required distribution for their products in the retail units of the chain, to sell at prices dictated by the buyer for the chain. This placed the seller in a position of subserviency to the giant chains, which could make him or break him if he did not accede to their wishes.

Further developments along these lines with, perhaps, even a merger of the largest giants into one superorganization, could have brought about a situation that would have been vicious and most dangerous to the maintenance of anything like democracy and equal opportunity in the grocery field. Instead of offering an opportunity for self-expression to the thousands who might wish to enter it as retailers, the field would be closed except to those who were financially able to enter it in competition with the established lords of the industry. Such concentration of power would close the avenues of trade not only to the independent retailers but to producers as well, since these giants could make in their own plants the merchandise they were selling through their retail units.

Contributions to the Industry by the Chains.—The one great contribution made by the large chains to the industry was a revolutionizing of the old-fashioned dingy and rather dirty grocery store into a clean, well-arranged, and attractively decorated store with a cheerful atmosphere. A second contribution was the popularizing of the cash-and carry methods of doing business. The independent retailers had a lot to learn from chain-store management.

Criticisms of the Giant Chains.—Regardless of these notable contributions to the industry, the chain store was subject early to much local criticism. It was claimed that it was not an economic part of the city in which it was located; that the manager of the store had little personal interest in local affairs and was more often than not an outsider; that its profits were sent to the headquarters of the giant chain in some far distant city and were not spent in the stores of the local merchants; and that it offered no trading services with local producers. Whether or not these criticisms were justified depended on many circumstances which are too involved to warrant a consideration in this book, but this criticism had sufficient power and weight to bring about popular legislation designed to curb the growth of the chains before they became too powerful to be controlled by legislative means in a democracy such as ours.

Are Giant Chains Economically Beneficial?—Taken all in all, it is a question whether the giant chains confer any economic benefits on the masses of consumers when the indirect losses to society are reckoned. Among these indirect losses may be included the diminution of normal profits which the producer is obliged to suffer in selling at low prices to the chain; the numbers of independent retailers and jobbers who are injured in their business development by chain competition; the unemployment always brought about by concentrations in industry; the centralization of the profits of the chain in large banking centers; the unfair advantages taken of producers by large chains in their insistence on extra price allowances which are not justified by the extra services rendered; the possibilities for manipulating the stock issues of such large enterprises; and the dangers to society from monopolistic practices in corporations which have, as a reason for their existence, profit and not philanthropic objectives. If the large chains sold at low prices, it was not always because of expert and efficient management, but frequently because of trade practices which gave the chain an advantage over the independent dealers and the jobbers who served them.

The Local Grocery Chain.—However, the field never became entirely monopolized by the giant national chains. Powerful local organizations operating in just one city or marketing center came into existence and were able to compete successfully with the giant chains. Many of the faults of the national organizations are modified when the chain is limited in its operations to one city or a definite area. Possibly townsmen prefer to purchase from chains known to be operated by local merchants. In any event, there are at present few large cities that do not have one or more local chains which are successfully competing with the giant chains in character of store and in prices. In fact, some of them have forged ahead of the national or interstate organizations in establishing new high standards in store accommodations, since the competition was active and keen. In many instances these local chains developed a type of service and an efficiency that must have dismayed the giant organizations, encumbered as they are with the clumsiness always associated with massiveness and great size.

The Jobber-sponsored Chain of Independent Retailers.—This rapid chain-store development, of course, played havoc with the business of the independent grocery retailers and wholesalers, who were obliged to find ways and means to meet this competition in order to survive.

One of the early methods used by wholesalers to meet this virile competition was to organize a group of independent retailers into a combination by which each maintained his individually owned store and operated it on his own account. The jobber agreed to furnish these members of what he usually called his "sponsored group" with merchandise at a price lower than usual in return for a greater percentage of their business. He supplied the members of his group with a distinctive type of store front and a uniform interior store arrangement so that they would possess a good standard of appearance. He also provided them with window streamers and handbills announcing special sales, and made every effort to render his sponsored group a merchandising service that would enable them to compete with the corporate chains and still maintain the personal ownership of the store and the personal relationship with their customers. In many cases this movement resulted in success for all concerned, because it is reported by *The Progressive Grocer* in its booklet "Facts in Food and Grocery Distribution" of January, 1939, that at the end of the year 1938 there were 521 such groups operating a total of 82,831 retail stores, and that the total sales of these stores were approximately $1,500,000,000 annually, which is about 20 per cent of the total sales of all independents and all chains combined.

Co-operative Groups of Retailers.—Another method used by retailers to meet the chain-store competition was the establishment of a co-operative joint partnership arrangement by which each of them desiring to enter into the group would be obliged to purchase a limited and perhaps fixed amount of stock in the enterprise. The money collected from the retailers was used to build or rent a warehouse for storing merchandise. A buyer was engaged on a salary basis to do the buying for the group and he, with his helpers, managed the movement of merchandise in and out of the warehouse for the benefit of the members. If and when possible, purchases were made by this buyer directly from the producers, in the same manner as a jobber. This merchandise was resold to the members at cost prices plus the overhead charges for the maintenance of the warehouse and its personnel.

The success of this type of co-operative enterprise depends solely on the quality, intelligence, and integrity of the management. Some of the groups have been quite successful because they have had a qualified and capable grocer in charge; others have failed or made little progress because the manager possessed insufficient executive or managerial ability. To quote *The Progressive Grocer* again, at the end of 1938 there existed in the country only 71 groups of this classification, operating a total of 2,588 stores.

Retailer-owned Chains.—The retailer-owned type of chain is another variation in the development of ways to enable the independent retail merchants to compete with the corporate chains. According to *The Progressive Grocer*, at the end of 1938, there existed 161 groups of this character operating a total of 25,006 retail stores.

Classification of the Retail Grocery Business in the United States.—A recapitulation of statistics from *The Progressive Grocer* shows that for the year 1938 the retail grocery business in the United States could be classified as follows:

Type of store	Number of groups	Total number of stores	Volume of sales
Unaffiliated independents		280,750	$ 2,676,000,000
Wholesaler-sponsored groups	521	82,831	2,400,000,000
Retailer-owned chains	161	25,006	
Co-operative groups	71	2,588	
Total	753	391,175	$ 5,076,000,000
Chain stores (4 or more)		45,000	2,657,000,000
Total		436,175	$ 7,733,000,000
Specialty stores (chain and independent)		175,000	2,282,000,000
Total		611,175	$10,015,000,000

Competition among Jobbers and Chains.—The foregoing paragraphs have been devoted to brief descriptions of the means used by many independent retail merchants to meet the various forms of competition in their field; in the wholesale grocery field there are also a number of developments, motivated by intense competition and requiring some notice.

Co-operative Buying by the Jobbers.—An interesting development is one that takes the form of a co-operative buying group of wholesalers. A number of jobbers may adopt a standard label for the merchandise they feature in common. A central buying office is established to purchase for these jobbers the items to be packed under this common label. The jobbers then push the sales of these branded products, which may include hundreds of items of all descriptions, with their retailer customers. Since only one jobber in any marketing center is selected to join the group, this gives that particular man the sole distributing rights for the label in his trading area. These jobbers make every effort, through distribution and local advertising, to gain consumer acceptance for the products branded with this common label. It is thought that a central office, buying at one time large quantities of the items packed under this label, will result in savings for the jobber members of the group and enable them to buy these branded products at a low cost, and in turn sell them to their customers at prices that enable the latter to meet other grocery competition.

The weakness in this method is that the jobber surrenders his purchasing initiative to a buyer over whom he has little or no personal control. This buyer, in order to make a good showing for himself and to please the price-conscious members of the group, may be ambitious to purchase the items packed under the common label at low prices with complete disregard to the quality. The jobbers who are supplied by him are obliged to handle the products he buys for them; if the merchandise is not up to standard the jobbers may ultimately suffer the loss of good will from their retailer customers, because consumers will not purchase these branded products in preference to the nationally advertised brands.

It would seem, from these considerations, that there can be little advantage to be derived from mass purchases made by one buyer for a group of jobbers. At best, the savings could be only nominal, and the jobber who surrenders his right to purchase merchandise which he expects to feature over and above the other items he may carry is treading on dangerous ground. Furthermore it is a question whether these co-operative jobbers are wholesalers in the true sense of the term, because when they feature a common label they alienate themselves from independent producers who could use the distributing services of these jobbers but refrain from doing so because of the partiality these jobbers show for their own label. Neither are these particular jobbers producers in the true sense of the term, because they do not make the items sold under their label. In reality they are simply distributing agents for a common buyer.

Jobber's Private Labels.—Many jobbers, in order to control their wholesale trade, resort to private labels. The jobber owns the label; when he makes purchases of popular food items it is affixed to the packages by the producer. Practically all producers, especially those who pack canned foods, will supply the jobbing trade with merchandise on which the buyer's label is affixed in lieu of the producer's. The jobber may perhaps offer his salesmen extra remuneration on all sales they make of items packed under this private label and so insure a distribution of these branded products in the stores of many retailers. Local consumer acceptance for the jobber's brand may be created through an advertising campaign conducted by him in his trading area. If this demand is created and retail merchants are obliged to carry these branded products, they will of course be forced to purchase them from the jobber who owns the label and this will insure the jobber of retailer patronage. The success of this private-label business largely hinges on the quality factor. The jobber who is brave enough to buy nothing but the highest quality of merchandise for his private label may be able to create sufficient demand for these branded products through local advertising and distribution to realize a substantial success.

Cash-and-carry Jobbers.—Another recent development among the jobbers has been the "cash-and-carry" method of distributing merchandise to retail grocers. In this method the jobber's salesman is omitted. The sale is made directly to the retailer on a cash instead of a credit basis provided the retailer comes to the wholesale establishment and carries away with him his wholesale purchases. Some wholesalers who employ salesmen in the orthodox manner maintain also a cash-and-carry department for retailers who prefer this method of purchasing. The retailer who takes the time to drive his truck to the cash-and-carry jobber to secure his grocery requirements must balance the cost of his time and transportation against any savings he may effect in making his purchases in this manner.

The Supermarket.—Finally, we now have, in addition to all the other types of retail grocery stores developed to date, an innovation known as the "supermarket." These are gigantic food stores which carry a full line of grocery items, food products, meats, fresh vegetables and fruits, delicatessen items, bakery products, and sometimes even hardware and wearing apparel. The supermarket, by dividing its overhead expenses among so many departments, gives each a low operating cost. Some, if not most, of their profits are frequently derived from rentals or leases to concessionaires and operators of unrelated businesses who occupy space in the building. The proprietors of the supermarkets are often able to collect high rents from beauty shops, drug stores, popcorn stands, soda fountains, and the like, which may occupy small rooms fronting on the street while the proprietors utilize the large interior space for the supermarket proper.

Practically all of these markets are "self-service" stores of the cash-and-carry type. Because of their size and the great variety of merchandise they offer for sale, they attract more customers than would be attracted to smaller stores confined to just one type of merchandise. The costs of operation are low because no sales clerks are required. Pyramids of canned foods, shelves arranged at convenient angles for the benefit of customers, and the self-service feature by which the customer can see and examine at his leisure the merchandise he wishes to buy has given these stores an appeal that brings instant results. When the customer enters the store he can provide himself with a basket or a device on wheels to hold one or more baskets. He now waits on himself, going leisurely from counter to counter and from shelf to shelf, selecting the merchandise he desires and putting it into his basket. When he has accumulated his purchases, he takes them to a wrapping desk to be counted, packaged, and paid for. Many of these supermarkets have been quite successful; one reason for this is the mass displays of merchandise made possible under conditions where space is more or less unlimited. They were invented by independent merchants, and it was only after their success was noticeable that the larger grocery chains imitated them. This shows the advantage of keeping the field always competitive and permitting no one group to obtain a monopolistic control. With free competition we have the exercise of ingenuity, and with ingenuity we have all kinds of new developments that are beneficial to the consumer.

Nationally Advertised Grocery Items.—In all this complicated scene, which has been under consideration from both the retail and the wholesale angle, there is another important factor not to be ignored by any distributor of grocery products. This is the nationally advertised food product for which a large consumer demand has been created by the producers. A large demand will force such a product through every channel of distribution. When a consumer is impressed with the merits of the "ABC" coffee through forceful and effective advertising publicity, he will insist that his retail grocer supply him with that brand. In order to keep the customer's good will, the retailer will insist that the jobber supply him with the "ABC" coffee; the jobber, in turn, to maintain the retailer's good will, must stock that brand by purchasing it from the producer.

The sales of these branded and widely advertised products are a big factor in the food field, and at present there seem to be two schools of thought among the producers of the nationally advertised food items. One holds that preponderant advertising will create such an overwhelming demand for the merchandise that the producer can be independent of both retailer and wholesaler and can force them to handle the product, no matter how little it may profit them to do so. Instead of allowing the retailer and the jobber a reasonable profit for their services, the producer will retain much of it himself, to be used in the further expansion of the advertising appeal and for augmenting his own profits. The other school is content with a reasonable profit giving enough profit margin to both wholesaler and retailer to satisfy them and to enlist their interest in the distribution of the product. The second school places distribution value on a par with advertising, while the first places all value on advertising, leaving the matter of distribution to take care of itself. Both of these schools have an important influence on the operations of every trade channel in the industry.

Abuses in the Industry.—With all of these elements fighting to obtain a lion's share of the $10,000,000,000 spent each year by the American public for food and grocery items, it is obvious that every possible effort is made by each group to obtain some price advantage over the other groups. The principal goal is to bring prices to the lowest possible level for the benefit of the ultimate consumer on the theory that the lower the price the greater the sales. In this struggle for existence many abuses can creep into the industry to the detriment of the whole. Every buyer in every group wants to obtain his merchandise at the lowest possible cost, and this entire attack is directed at the producer, who is the first source of supply.

Forms of Price Discrimination.—These attacks on the producer take the form of demands for special discounts, unreasonable sample allowances, freight rebates, advertising allowances which are never spent for this purpose, and many other devices, all for the purpose of lowering the cost to a distributor so that he has some price advantage over other distributors. For example, a large chain may refuse to place a product in its stores unless the producer agrees to furnish each retail unit, without charge, with a full container of the merchandise for initial distribution among the stores of the chain. Another chain may insist that the producer furnish demonstrators to present the product in its various retail units, and pay for this privilege, on which payments the chain makes a handsome profit. Another asks for an advertising allowance far in excess of what will actually be spent. To show the extent which these subterfuges for lower costs and price advantages have reached, one need only examine the hearings held in Washington by a Congressional Committee when the practices of some of the larger grocery chains were under investigation.

Although the producer is generally the butt of these various demands, he is not immune from practices which are unethical. When the producer lends himself to satisfying these demands, he is unquestionably guilty of gross discrimination between his various customers. These discriminations are just as unfair as the rebates on freight rates, given some years ago to favored shippers by the railroad companies and later stopped by the creation and intervention of the Interstate Commerce Commission. It can be conservatively stated that, prior to the passing of the Robinson-Patman Act, the food industry had reached a chaotic condition; it is still a question if the provisions of this Act, as it now stands, will clear the atmosphere so clouded with abuses. At this moment, progress is being made in the interpretation and enforcement of the Act, indicating that every effort is being made to correct, through cease and desist orders, some of the most flagrant conditions.

Because of its important bearing on the food industry, a copy of the Act appears in the Appendix to this book.

The Broker and Price Discriminations.—No account of the food broker would be complete unless it included some words as to how he fared in these battles between producers and distributors, and between distributors and distributors. The broker was frequently caught between two fires. As the producer's sales representative, he formed the connecting link between buyer and seller. His services are of great value to both parties because he is the instrument for bringing them together. The broker is willing to assume the marketing responsibilities for a principal on terms which are a greater gamble to him than they are to the producer. The food broker functions only in a sales capacity, doing this work at a lower cost to the producer than any other agency and functioning for him in lieu of a salaried salesman. Regardless of his acknowledged role as a salesman, he frequently becomes the victim of circumstances and is subjected to unfair treatment in this battle for markets and special privilege.

Spurious Brokers Created to Obtain Price Discriminations.—After every sort of demand was made on the producers by the buyers in their hot pursuit for special privilege, there remained one virgin field for additional extortion in the form of unwarranted price discounts, and that was the field occupied by the food broker. Every eye turned to this possible source of additional secret rebates. Here was a 2½ or 5 per cent commission for sales work which could possibly be ravaged and added to the extra privilege sought by every buyer. To obtain this, many types of substitutes for the legitimate broker, each claiming to perform his sales function, soon sprang into existence. These spurious brokers were set up to act as purchasing agents for the buyers or groups of buyers employing them. Their obvious purpose was to obtain brokerage from producers as another form of price concession. They demanded a regular brokerage, although they were not at all interested in the general sales progress and welfare of the producers, and were intent only on getting this brokerage for the buyer employing them.

Varieties of Spurious Brokers.—These spurious brokerage offices took many forms and appeared under a multitude of guises. Some were owned and controlled by the buyers; others received special subsidies from the buyers. The general form was to set up a dummy broker who took on all the appearances of legitimacy. He was generally paid a salary for his work by the buyer. All the commissions he collected, except the expenditures required to maintain his sham establishment, were turned over to the buyer as an extra discount on his purchases.

The producer who permitted such a dummy broker to represent him in a sales capacity could not help but be cognizant of the sham, since the broker of this type had only one buyer to whom he could sell the producer's wares. The legitimate food broker does not concentrate his selling efforts on only one buyer, but makes it his duty to offer his principal's merchandise to every wholesale buyer in the territory, without discrimination. It would seem to be obvious that the spurious broker's chief function was to cater to one buyer only and that under such circumstances the best interest of the seller was the least of his concerns. Yet, in the face of what was most obvious, many producers were willing to permit them to collect a brokerage which was evidently going ultimately into the pockets of the buyer employing the broker for this very purpose. At the same time many such producers would use legitimate brokers to sell the products on the open market, but would prohibit them from selling to the privileged buyer since the brokerage on such transactions must be paid to the buyer's spurious broker. The legitimate broker was forced to tolerate such a breach of trust on the part of his principal or lose that account.

Since much ingenuity was used in the creation of these sham brokerage offices, it will be of interest to describe some of the varieties that appeared. One was the "brokerage office" (so called) established and owned by one buyer, which was usually set up in the center of a region productive of a large supply of certain types of merchandise required in substantial volume by the buyer. Brokerage offices of this type could be found in the city of Milwaukee, Wis., because it is the center of the canned-foods producing regions of Wisconsin, Iowa, Illinois, Indiana, Ohio, and Michigan. These states produce an abundance of staple canned vegetables and small fruits which are purchased by buyers in large quantities. Other brokers of the same type could be found in Rochester, N. Y., San Francisco, Cal., and Baltimore, Md. They represented themselves as legitimate to the canners in these districts and demanded the regular brokerage on all the alleged sales they made to the buyers who were employing them.

The Purchasing Company and Brokerage.—The "purchasing company" was another device to garner brokerage from a producer for the benefit of the buyer so as to give him a price advantage over others. This device took the form of an independent corporation which offered its service to buyers on a subscription or flat service-fee basis. Each subscriber paid a monthly fee to the corporation; the latter in return purported to remit to its subscribers all the brokerage it could collect from the sellers on purchases of merchandise for these subscribers. The purchasing company then turned about face and represented itself to sellers as a brokerage organization, and accordingly demanded a brokerage on the sales it made to its subscribers. This dizzy role was hard to sustain after the passage of the Robinson-Patman Act, and one company which operated on this basis was made the subject of a cease and desist order by the Federal Trade Commission after the case was investigated, and that order was sustained by the highest courts, including the United States Supreme Court.

The Central Buying Office and Brokerage.—Another form of spurious broker appears in the "central buying office" plan. Such an office may be formed by a buying group composed of several distributors. The concept underlying this scheme is volume buying through this so-called buying office. If the co-operators clear their orders through one office, it is hoped that by this combination there will be sufficient quantities involved to warrant a demand for quantity discounts. Volume buying may constitute a legitimate excuse for low cost prices, but when such central buying offices represent themselves to the sellers as food brokers they are overstepping their bounds and are requesting something to which they are certainly not entitled. They are avowed buyers without dispute and intend to perform for the principal no actual indiscriminate selling services in return for this brokerage payment.

Other Methods for Securing Unearned Brokerage.—The voluntary chain groups which have been described, particularly those groups which have jobber sponsorship, will frequently open a central office, disguised as a brokerage office, which will conduct buying and brokerage collection operations for the sole benefit of the buyers.

Another type may have little definite form except a name. Buyers are permitted to enlist as members of the organization, and sellers are asked to remit brokerage to them on their purchases merely because such buyers belong to this unique organization which possesses the magical power of drawing rabbits from a hat.

Sometimes a bona fide broker will lend himself to these deceptive tricks. His business is generally incorporated and the sellers are invited to become stockholders at a very low subscription rate. Special discounts, camouflaged under the name of brokerage, can then be given to certain favored buyers.

The purpose underlying all of these tricks is to find a way whereby the seller may excuse himself for paying, or the buyer for demanding, a brokerage in lieu of a special price concession. They are obviously all thin subterfuges for the buyer to encroach on the legitimate broker's domain in order to obtain a selling fee as a price concession. Seldom is the demand for a brokerage made in an open manner; the very fact that camouflages are invariably used shows conclusively that the demands for brokerage are unethical even in the minds of the inventors of these systems of extortion. Sellers who cater to these spurious substitutes for brokers cannot be blind to the fact that these do not offer the seller's products for sale to all eligible and worthy buyers without discrimination, but, instead, they ignore all customers except the one buyer who is responsible for the spurious broker's existence. Such methods for giving secret rebates to favored buyers by leeching legitimate selling-cost budgets are no more legitimate than asking a buyer to accept a portion of a salaried salesman's remuneration as a special price concession on his purchases.

An extension of these shady practices would ultimately mean that every employee of every seller would be subjected to some kind of offer from some buyer to favor that particular buyer with a form of graft or price concession at the expense of the seller. When business reaches this state of corruption and degeneracy, it is time some steps are taken to clean it up.

The Robinson-Patman Act.—The Robinson-Patman Act was designed to do for the food industry what the Interstate Commerce Act did in cleaning up the mess of discriminatory freight rates in the shipping field. It is hoped for the future welfare of the industry that this Act will be instrumental in clearing away many of the evils which now afflict the grocery industry. One by one, as the legal mill grinds through these evil conditions, cease and desist orders are being issued, and the field is gradually being divested of its plague spots. There are plenty of opportunities in this vast industry for legitimate profits without recourse to unfair practices which discriminate between the various buyers of grocery products. The field must be kept open and clean, so that it can benefit from a constant influx of new talent and so that opportunities for each individual may be preserved. It was the exercise of these individual rights and opportunities that has made this great country of ours, in a short time, a leader among the nations of the world. To preserve this gift of freedom of action, equal rights to all, and no special privilege, we must play the game according to rules, that will give everyone an equal chance for expression and not permit the dice of fortune to be loaded for the benefit of a few.

The Broker Is Frequently the Victim of Unscrupulous Producers.—Many of the affairs of men cannot be regulated by law; very often the food broker is the victim of a breach of trust for which he can obtain no legal redress. It frequently happens that a producer will appoint a food broker as his sales representative for the sole purpose of securing introductions to the buyers in a territory. Once these introductions are secured and the principal and the buyer brought together, the principal will then cancel his brokerage arrangements and deal directly with the buyer. This type of principal uses the broker as a pawn to open up new accounts and the broker has no legal redress for this theft of his services.

The Monopolization of Brokers.—There is another type of principal who attempts to monopolize brokers in the various marketing centers so that such brokers are not available to represent competitors. This type will organize a number of sales companies under different corporate names. Each company will represent itself as independent and will feature products under its own brands. The products sold by these different companies are all produced in the same plant and differ in no respect except as to label. One producer in the canned food field owns and controls three such pseudo-independent sales concerns and has recently added a fourth. Each of these four sales companies appoints a broker in as many marketing centers as possible. The result is that four of the available brokers in any one marketing center are engaged in competing with each other in selling the products actually made in one plant and all for the benefit of the one producer, who remains in the background and presents himself to the brokers and the buying trade from four different angles. The brokers are to be blamed for such a condition, which freezes a market from legitimate competition, because any intelligent broker, by looking at the factory number on a tin of canned food can tell who is actually producing it. If brokers investigate the standing of a principal carefully before accepting his account, they can soon unearth the things which are seemingly hidden.

What Will the Future Present?—The author fully realizes the dangers of prognostication and does not wish to accept its responsibilities, but there are enough present trends in the industry to indicate directional currents. If the industry is kept clean and policed, the wholesale grocer will remain in the picture for some time to come; but there will be fewer jobbers and these will cater to the delicatessen store, the hotel and restaurant trade, the wayside food stands, the general country store, the institutional trade, and the high-class independent store which offers credit privileges and makes deliveries to the housewives who do not care to shop and who find it more convenient to telephone to the grocer for their requirements. In the urban communities there will be an increase in jobber-sponsored chains. The jobber will be obliged, however, to lower his costs of doing business and to find more efficient and less expensive means for serving his retailer customers. The jobber's chief reason for existence is to fulfill the functions of economical distribution of the merchandise of many producers. He must prove that his distributing service is more economical than the one the producer can establish for the same purpose. An increasing number of producers will select preferred jobbers as exclusive distributors, and this will bring about a closer relationship between the producer and his wholesale distributors to their mutual advantage.

The co-operative groups of retailers who own their own stores and who participate in a common warehouse constitute a form which is still in its experimental stage. The success of this type of chain depends solely on management. If efficient managers can be secured, the movement may grow; if not, it may give way to the jobber-sponsored type of chain, because the jobbing business is becoming more and more a school for efficiency, since it has so many problems to face and has survived through many crises.

Local corporate chain stores will continue to increase and prosper, especially in the large cities, because they possess the price advantages and none of the objections that are raised against the national or giant chains. These local chains will restrict the number of retail units in operation and will be content with fewer stores in better locations as compared with a large number of stores scattered indiscriminately all over a city. These chains, like the national chains, may be subject to increased rates of taxation because of the potential strength they possess to crush weaker competitors out of business.

The giant grocery chains, operating thousands of stores in the various states, have reached the peak of their development and will either gradually die out or disintegrate into smaller individual components, each operating separately in the various markets, with the corporate structure held together by some form of holding company. These giant chains will find it increasingly difficult to meet local competition, since local chains have aped their methods of display and can meet their prices owing to the existence of a fair-trade law.

The supermarket is still a novelty, which may not always be as popular as it is now, with increased traffic and parking problems. The consumer who patronizes a supermarket generally goes with the intention of filling many needs and his purchase will be a large one. This is the psychology on which this kind of market depends for its success. The customer must accept the problem of getting his merchandise to his home, and since the supermarket is a cash-and-carry store, he must provide a means for the delivery of his purchases. The usual means for carting this merchandise is the customer's automobile, and he will use the car provided he can park it near the store. Therefore, the logical place for the supermarket is in the suburbs of cities large enough to support such a store and where parking space is available. The supermarket with the best parking facilities will get the most trade.

The food broker, with whose activities this book is primarily concerned, will not only remain as a very important sales instrument, but will become increasingly more important as the most efficient and least expensive means for marketing food and grocery items. Personal sales contacts between buyer and producer will always be an essential function. More and more producers, when they recognize the economical sales service a food broker can render, will use him with his nominal and fixed charges as a means for selling their products. The additional services requested by many principals will lead to higher brokerage rates as the most economical means for obtaining them. The consolidation of candy, drug, tobaccos, and grocery wholesalers, which must ultimately occur, since such consolidations are now appearing in retail form, will extend the activities of the food brokers. The broker of the future will not confine his sales efforts to the grocery field alone. He will be the principal sales contact between producers of many items and the buyers for them. He will be a sales representative in his market for drugs, confections, and all the many other items that will be handled by the superwholesaler of the future. He will replace the uncertainties of a salaried sales force and eliminate much of the duplication of sales effort when he makes his sales contacts with buyers. This points to more brokers in the field to take care of these increased responsibilities; a contraction of territorial areas, because of the larger volume of sales a broker can then procure from a smaller territory, and as a final result a lower marketing cost for all producers in this field to the advantage of the great mass of people who patronize the combined stores where they can purchase the many items marketed through the broker.

APPENDIX

[PUBLIC—NO. 692—74TH CONGRESS]

[H. R. 8442]

AN ACT

To amend section 2 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended (U. S. C., title 15, sec. 13), and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914, as amended (U. S. C., title 15, sec. 13), is amended to read as follows:

"SEC. 2. (a) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchases of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, and where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: *Provided,* That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered: *Provided, however,* That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than so fixed and established: *And provided further*, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: *And provided further*, That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

"(b) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the primafacie case thus made by showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: *Provided, however*, That nothing herein contained shall prevent a seller rebutting the primafacie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

"(c) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

"(d) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

"(e) That it shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

"(f) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section."

Sec. 2. That nothing herein contained shall affect rights of action arising, or litigation pending, or orders of the Federal Trade Commission issued and in effect or pending on review, based on section 2 of said Act of October 15, 1914, prior to the effective date of this amendatory Act: *Provided,* That where, prior to the effective date of this amendatory Act, the Federal Trade Commission has issued an order requiring any person to cease and desist from a violation of section 2 of said Act of October 15, 1914, and such order is pending on review or is in effect, either as issued or as affirmed or modified by a court of competent jurisdiction, and the Commission shall have reason to believe that such person has committed, used or carried on, since the effective date of this amendatory Act, or is committing, using or carrying on, any act, practice or method in violation of any of the provision of said section 2 as amended by this Act, it may reopen such original proceeding and may issue and serve upon such person its complaint, supplementary to the original complaint, stating its charges in that respect. Thereupon the same proceedings shall be had upon such supplementary complaint as provided in section 11 of said Act of October 15, 1914. If upon such hearing the Commission shall be of the opinion that any act, practice, or method charged in said supplementary complaint has been committed, used, or carried on since the effective date of this amendatory Act, or is being committed, used or carried on, in violation of said section 2 as amended by this Act, it shall make a report in writing in which it shall state its findings as to the facts and shall issue and serve upon such person its order modifying or amending its original order to include any additional violations of law so found. Thereafter the provisions of section 11 of said Act of October 15, 1914, as to review and enforcement of orders of the Commission shall in all things apply to such modified or amended order. If upon review as provided in said section 11 the court shall set aside such modified or amended order, the original order shall not be affected thereby, but it shall be and remain in force and effect as fully and to the same extent as if such supplementary proceedings had not been taken.

Sec. 3. It shall be unlawful for any person engaged in commerce, in the course of such commerce, to be a party to, or assist in, any transaction of sale, or contract to sell, which discriminates to his knowledge against competitors of the purchaser, in that, any discount, rebate, allowance, or advertising service charge is granted to the purchaser over and above any discount, rebate, allowance, or advertising service charge available at the time of such transaction to said competitors in respect of a sale of goods of like grade, quality, and quantity; to sell, or contract to sell, goods in any part of the United States at prices lower than those exacted by said person elsewhere in the United States for the purpose of destroying competition, or eliminating a competitor in such part of the United States; or, to sell, or contract to sell, goods at unreasonably low prices for the purpose of destroying competition or eliminating a competitor.

Any person violating any of the provisions of this section shall, upon conviction thereof, be fined not more than $5,000 or imprisoned not more than one year, or both.

Sec. 4. Nothing in this Act shall prevent a cooperative association from returning to its members, producers, or consumers the whole, or any part of, the net earnings or surplus resulting from its trading operations, in proportion to their purchases or sales from, to, or through the association.

Approved, June 19, 1936.

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